No. 16-1011	
Title:	**WesternGeco LLC, Petitioner** **v.** **ION Geophysical Corporation**
Docketed:	February 17, 2017
Linked with 16A576	
Lower Ct:	United States Court of Appeals for the Federal Circuit
Case Numbers:	(2013-1527, 2014-1121, 2014-1526, 2014-1528)
Decision Date:	September 21, 2016
Questions Presented	

DATE	PROCEEDINGS AND ORDERS
Dec 08 2016	Application (16A576) to extend the time to file a petition for a writ of certiorari from December 20, 2016 to February 17, 2017, submitted to The Chief Justice.
Dec 13 2016	Application (16A576) granted by The Chief Justice extending the time to file until February 17, 2017.
Feb 17 2017	Petition for a writ of certiorari filed. (Response due March 20, 2017)
Mar 08 2017	Order extending time to file response to petition to and including April 19, 2017.
Apr 19 2017	Brief of respondent ION Geophysical Corporation in opposition filed.
May 08 2017	Reply of petitioner WesternGeco LLC filed.
May 09 2017	DISTRIBUTED for Conference of May 25, 2017.

May 30 2017	The Acting Solicitor General is invited to file a brief in this case expressing the views of the United States. Justice Alito took no part in the consideration or decision of this petition.
Dec 06 2017	Brief amicus curiae of United States filed. Proof of Service Main Document
Dec 20 2017	DISTRIBUTED for Conference of 1/5/2018.
Dec 20 2017	Supplemental brief of respondent ION Geophysical Corp. filed. (Distributed) Main Document Certificate of Word Count Proof of Service
Jan 08 2018	DISTRIBUTED for Conference of 1/12/2018.
Jan 12 2018	Petition GRANTED. Justice Alito took no part in the consideration or decision of this petition.
Jan 25 2018	Letter of amendment to corporate disclosure statement from respondent ION Geophysical Corp. filed. (Distributed) Main Document
Feb 01 2018	Blanket Consent filed by Respondent, ION Geophysical Corporation. Blanket Consent
Feb 02 2018	Blanket Consent filed by Petitioner, WesternGeco LLC. Blanket Consent
Feb 23 2018	SET FOR ARGUMENT on Monday, April 16, 2018.
Feb 23 2018	Brief of petitioner WesternGeco LLC filed. Main Document Certificate of Word Count Proof of Service
Feb 23 2018	Joint appendix filed. Main Document Proof of Service

Feb 27 2018	Brief amicus curiae of New York Intellectual Property Law Association in support of neither party filed. Main Document Certificate of Word Count Proof of Service
Mar 01 2018	Brief amicus curiae of Law Professor Stephen Yelderman filed. (Distributed) Main Document Certificate of Word Count Proof of Service
Mar 02 2018	Brief amicus curiae of Power Integrations, Inc. filed. Main Document Certificate of Word Count Proof of Service
Mar 02 2018	Brief amici curiae of Intellectual Property Law Scholars in support of neither party filed. (Distributed) Main Document Certificate of Word Count Proof of Service
Mar 02 2018	Brief amicus curiae of United States filed. Main Document Proof of Service
Mar 02 2018	Brief amicus curiae of Intellectual Property Law Association of Chicago filed. (Distributed) Main Document Certificate of Word Count Proof of Service
Mar 02 2018	Brief amicus curiae of Houston Intellectual Property Law Association in Support of Neither Party filed. (Distributed) Main Document Certificate of Word Count Proof of Service
Mar 05 2018	Brief amicus curiae of Intellectual Property Owners Association filed in Support of Neither Party. (Distributed) Main Document Certificate of Word Count Proof of Service
Mar 05 2018	Brief amicus curiae of American Intellectual Property Law Association filed in Support of Neither Party. (Distributed) Main Document Certificate of Word Count Proof of Service

Mar 07 2018	CIRCULATED
Mar 09 2018	Motion of the Solicitor General for leave to participate in oral argument as amicus curiae and for divided argument filed. Proof of Service Main Document
Mar 26 2018	Brief of respondent ION Geophysical Corporation filed. (Distributed) Main Document Certificate of Word Count Proof of Service
Mar 28 2018	Justice Alito is no longer recused in this case.
Mar 30 2018	Record requested from U.S.C.A. Federal Circuit.
Apr 02 2018	Brief amici curiae of Electronic Frontier Foundation and R Street Institute filed. (Distributed) Main Document Certificate of Word Count Proof of Service
Apr 02 2018	Brief amici curiae of Fairchild Semiconductor International, Inc., The Internet Association, SAS Institute Inc., Symmetry, LLC, and Xilinx, Inc. filed. (Distributed) Main Document Certificate of Word Count Proof of Service
Apr 06 2018	Record received from the U.S.D C. Southern District of Texas Brownsville Division is electronic and can be accessed through the electronic case filing system for the Southern District of Texas. Sealed documents was sent to this Court, the record is electronic.
Apr 06 2018	Record from the U.S.C.A. Federal Circuit is electronic and located on PACER, with the exception of 1 Box of Confidential material.
Apr 09 2018	Reply of petitioner WesternGeco LLC filed. (Distributed) Main Document Certificate of Word Count Proof of Service
Apr 13 2018	Motion of the Solicitor General for leave to participate in oral argument as amicus curiae and for divided argument

	GRANTED.
Apr 16 2018	Argued. For petitioner: Paul D. Clement, Washington, D. C.; and Zachary D. Tripp, Assistant to the Solicitor General, Department of Justice, Washington, D. C. (for United States, as amicus curiae.) For respondent: Kannon K. Shanmugam, Washington, D. C.
Jun 22 2018	Judgment REVERSED and case REMANDED. Thomas, J., delivered the opinion of the Court, in which Roberts, C. J., and Kennedy, Ginsburg, Alito, Sotomayor, and Kagan, JJ., joined. Gorsuch, J., filed a dissenting opinion, in which Breyer, J., joined.
Jul 24 2018	JUDGMENT ISSUED.

NAME	ADDRESS	PHONE
Attorneys for Petitioner		
Paul D. Clement Counsel of Record	Kirkland & Ellis LLP 655 Fifteenth Street, NW Washington, DC 20005 paul.clement@kirkland.com	2028795000
Party name: WesternGeco LLC		
Attorneys for Respondent		
Kannon K. Shanmugam Counsel of Record	Williams & Connolly LLP 725 Twelfth Street, N.W. Washington, DC 20005 kshanmugam@wc.com	(202) 434-5000
Party name: ION Geophysical Corporation		
Danielle J. Healey	Fish & Richardson, P.C. 1221 McKinney Street Suite 2800 Houston, TX 77010 healey@fr.com	713-654-5300

Party name: ION Geophysical Corp.

Other

Iftikhar Ahmed Counsel of Record	Ahmad, Zavitsanos, Anaipakos, Alavi & Mensing, P.C. 1221 McKinney Street, Suite 2500 Houston, TX 77010 iftiahmed@azalaw.com	713-655-1101

Party name: Houston Intellectual Property Law Association

David Bartley Eppenauer Counsel of Record	Shook, Hardy & Bacon, L.L.P. 701 Fifth Avenue Suite 6800, Seattle, WA 98104 beppenauer@shb.com	206-344-7600

Party name: Intellectual Property Owners Association

Noel J. Francisco Counsel of Record	Solicitor General United States Department of Justice 950 Pennsylvania Avenue, NW Washington, DC 20530-0001 SupremeCtBriefs@USDOJ.gov	202-514-2217

Party name: United States

Timothy R. Holbrook Counsel of Record	Emory University School of Law 1301 Clifton Rd, NE Atlanta, GA 30322 tholbrook@emory.edu	404-712-0353

Party name: Intellectual Property Law Scholars

Rachel Clark Hughey Counsel of Record	Merchant & Gould P.C. 3200 IDS Center 80 South Eighth Street Minneapolis, MN 55402 rhughey@merchantgould.com	612-332-5300

Party name: Law Professor Stephen Yelderman

David W. Long Counsel of Record	Essential Patent LLC PO Box 710868 Oak Hill, VA 20171	571-402-1922

longdw@essentialpatent.net

Party name: American Intellectual Property Law Association

Daniel K. Nazer
Counsel of Record
Electronic Frontier Foundation
815 Eddy Street
San Francisco, CA 94109
415-436-9333

daniel@eff.org

Party name: Electronic Frontier Foundation and R Street Institute

Irena Royzman
Counsel of Record
Patterson Belknap Webb & Tyler LLP
1133 Avenue of the Americas
New York, NY 10036
(212) 336-2000

iroyzman@pbwt.com

Party name: New York Intellectual Property Law Association

Donald William Rupert
Counsel of Record
MARSHALL, GERSTEIN & BORUN LLP
233 SOUTH WACKER DR.
6300 WILLIS TOWER
Chicago, IL 60606
3124746300

drupert@marshallip.com

Party name: Intellectual Property Law Association of Chicago

Alexandra Anastasia Ekaterina Shapiro
Counsel of Record
Shapiro Arato LLP
500 Fifth Avenue
40th Floor
New York, NY 10110
212 257-4880

ashapiro@shapiroarato.com

Party name: Power Integrations, Inc.

Kathleen Marie Sullivan
Counsel of Record
Quinn Emanuel Urquhart & Sullivan, LLP
51 Madison Ave., 22nd Floor
New York, NY 10010
(212) 849-7000

kathleensullivan@quinnemanuel.com

Party name: Fairchild Semiconductor International, Inc., The Internet Association, SAS Institute Inc., Symmetry, LLC, and Xilinx, Inc.

RECORD AND BRIEFS.

16-1011

FILED
FEB 17 2017
OFFICE OF THE CLERK
SUPREME COURT, U.S.

No. ___

In the Supreme Court of the United States

WESTERNGECO LLC,
Petitioner,

v.

ION GEOPHYSICAL CORPORATION,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

TIMOTHY K. GILMAN
LESLIE M. SCHMIDT
KIRKLAND & ELLIS LLP
601 Lexington Avenue
New York, N.Y. 10022
(212) 446-4800

PAUL D. CLEMENT
Counsel of Record
GREGG F. LOCASCIO, P.C.
JOHN C. O'QUINN
WILLIAM H. BURGESS
KIRKLAND & ELLIS LLP
655 Fifteenth St. N.W.
Washington, D.C. 20005
(202) 879-5000
paul.clement@kirkland.com

FEBRUARY 2017

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20002

QUESTION PRESENTED

Under 35 U.S.C. § 271(f), it is an act of patent infringement to supply "components of a patented invention," "from the United States," knowing or intending that the components be combined "outside of the United States," in a manner that "would infringe the patent if such combination occurred within the United States."

Under 35 U.S.C. § 284, patent owners who prevail in litigation are entitled to "damages adequate to compensate for the infringement."

In this case, despite affirming that Respondent was liable for infringement under § 271(f), the majority of a divided panel of the court of appeals held that Petitioner was not entitled to lost profits caused by the proscribed combination. The court of appeals reasoned that even when Congress has overridden the presumption against extraterritorial application of the law in creating *liability*, the presumption must be applied a second time to restrict *damages*.

The question presented is:

Whether the court of appeals erred in holding that lost profits arising from prohibited combinations occurring outside of the United States are categorically unavailable in cases where patent infringement is proven under 35 U.S.C. § 271(f).

CORPORATE DISCLOSURE

All parties are listed in the caption.

WesternGeco LLC is an indirectly, wholly owned subsidiary of Schlumberger Limited, which is a publicly traded company.

TABLE OF CONTENTS

Page

QUESTION PRESENTED i

CORPORATE DISCLOSURE ii

INTRODUCTION 1

OPINIONS BELOW 3

JURISDICTION 3

PERTINENT STATUTORY PROVISIONS 3

STATEMENT OF THE CASE 5

A. Statutory Background 5

1. Infringement (§ 271) 5

2. Damages (§ 284) 7

B. Factual Background 8

1. WesternGeco's Patents 8

2. ION's Infringement 9

C. District Court Proceedings 10

D. Appeals 11

1. Reversal of Lost Profits 11

2. GVR and Remand 13

REASONS TO GRANT THE WRIT 15

I. The Federal Circuit's Decision is Fundamentally Wrong, Inconsistent With This Court's Precedents, And Misapplies the Presumption Against Extraterritoriality 15

A. The Federal Circuit's Decision is Contrary to This Court's Precedent Applying the Presumption Against Extraterritoriality 15

B. The Federal Circuit's Decision is Contrary to This Court's Precedents Regarding Damages for Patent Infringement. 20

II. The Federal Circuit's Decision Creates a Patent-Specific Rule in Tension With Copyright Law's Predicate Act Doctrine. 22

III. The Question Presented Is Important To The Enforcement of Section 271(f). 26

CONCLUSION 31

APPENDIX CONTENTS

September 21, 2016 Opinion and Dissent,
837 F.3d 1358 (Fed. Cir.) 1a

July 2, 2015 Opinion and Dissent,
791 F.3d 1340 (Fed. Cir.) 23a

June 19, 2013 Memorandum and Order,
953 F. Supp. 2d 731 (S.D. Tex.) 76a

July 16, 2012 Memorandum and Order,
2012 WL 2911968 (S.D. Tex.) 141a

June 29, 2012 Memorandum and Order,
2012 WL 2568167 (S.D. Tex.) 155a

May 7, 2014 Final Judgment (S.D. Tex.) 168a

August 16, 2012 Jury Verdict (S.D. Tex.)..... 170a

October 30, 2015 Order Denying Rehearing,
and Statement of Judge Wallach,
Dissenting from Denial of Rehearing,
621 F. App'x 663 (Fed. Cir.)..... 176a

TABLE OF AUTHORITIES

Cases

Am. Broad. Cos. v. Aereo, Inc.,
134 S. Ct. 2498 (2014) 19

Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476 (1964) 19, 21

Bavendam v. Pearson Educ., Inc.,
No. 13-CV-3096, 2013 WL 5530008
(D.N.J. Oct. 3, 2013) 24

Carbice Corp. v. Am. Patents Dev. Corp.,
283 U.S. 27,
supplemented 283 U.S. 420 (1931) 19

Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.,
807 F.3d 1283 (Fed. Cir. 2015) 16

Commil USA, LLC v. Cisco Sys., Inc.,
135 S. Ct. 1920 (2015) 6

Coupe v. Royer,
155 U.S. 565 (1895) 21

Deepsouth Packing Co. v. Laitram Corp.,
406 U.S. 518 (1972) 1, 6

Dowagiac Mfg. Co. v. Minnesota Moline Plow Co., 235 U.S. 641 (1915) 21, 22

eBay Inc. v. MercExchange, L.L.C.,
547 U.S. 388 (2006) 23

EEOC v. Arabian Am. Oil Co.,
499 U.S. 244 (1991) 17

Eldred v. Ashcroft,
537 U.S. 186 (2003) 23

Fox Film Corp. v. Doyal,
286 U.S. 123 (1932).....22, 23

General Motors Corp. v. Devex Corp.,
461 U.S. 648 (1983).....7, 8, 19, 20, 21

Geophysical Serv. Inc. v. ConocoPhillips Co.,
No. 15-CV-2766, 2016 WL 2839286
(S.D. Tex. May 13, 2016).....24

Global-Tech Appliances v. SEB S.A.,
563 U.S. 754 (2011).....6, 22

Goulds Mfg. Co. v. Cowing,
105 U.S. 253 (1881).....21

Halo Creative & Design Ltd. v. Comptoir Des Indes Inc.,
816 F.3d 1366 (Fed. Cir. 2016).....23

Halo Elecs., Inc. v. Pulse Elecs., Inc.,
136 S. Ct. 1923 (2016).....11, 14

ICONICS, Inc. v. Massaro,
192 F. Supp. 3d 254, (D. Mass. 2016).....24

Kiobel v. Royal Dutch Petroleum Co.,
133 S. Ct. 1659 (2013).....16, 17

Lexmark Int'l, Inc. v. Static Control Components, Inc., 134 S. Ct. 1377 (2014).....20

Liberty Toy Co. v. Fred Silber Co.,
149 F.3d 1183 (table),
1998 WL 385469 (6th Cir. 1998).....23

Life Techs. Corp. v. Promega Corp.,
136 S. Ct. 290 (2015) (CVSG).....30

Los Angeles News Serv. v. Reuters Television Int'l, Ltd.,
149 F.3d 987 (9th Cir. 1998).....23

Los Angeles News Serv. v. Reuters Television Int'l, Ltd., 340 F.3d 926 (9th Cir. 2003) 24

Maersk Drilling USA, Inc. v. TransOcean Offshore Deepwater Drilling, Inc., 134 S. Ct. 381 (2013) (CVSG) 30

Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913 (2005) 23

Microsoft Corp. v. AT&T Corp., 547 U.S. 1096 (2006) (CVSG) 30

Microsoft Corp. v. AT&T Corp., 550 U.S. 437 (2007) 7, 16, 17, 29

Morrison v. Nat'l Austl. Bank, Ltd., 561 U.S. 247 (2010) 16, 17

Palmer v. Braun, 376 F.3d 1254 (11th Cir. 2004) 24, 25

Palmer/Kane LLC v. Houghton Mifflin Harcourt Publ'g Co., No. 13-CV-11030, 2014 WL 183774 (D. Mass. Jan. 16, 2014) 24

Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc., 589 F. Supp. 2d 505 (D. Del. 2008) 12

Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc., 711 F.3d 1348 (Fed. Cir. 2013) 12

RJR Nabisco, Inc. v. European Cmty., 136 S. Ct. 2090 (2016) 16, 17

Sheldon v. Metro-Goldwyn Pictures Corp., 106 F.2d 45 (2d Cir. 1939) 23, 24

Sheldon v. Metro-Goldwyn Pictures Corp.,
309 U.S. 390 (1940) 24

Sony Corp. v. Universal City Studios, Inc.,
464 U.S. 417 (1984) 22, 25

The Emily,
22 U.S. 381 (1824) 19

Tire Eng'g & Distrib., LLC v. Shandong Linglong Rubber Co.,
682 F.3d 292 (4th Cir. 2012) 23, 25

United States v. Palmer,
16 U.S. (3 Wheat.) 610 (1818) 16

Update Art, Inc. v. Modiin Publ'g, Ltd.,
843 F.2d 67 (2d Cir. 1988) 25

Yale Lock Mfg. Co. v. Sargent,
117 U.S. 536 (1886) 20

Statutes

28 U.S.C. § 1254(1) 3

35 U.S.C. § 271(a)-(c) 3

35 U.S.C. § 271(e) 21, 31

35 U.S.C. § 271(f) ..... *passim*

35 U.S.C. § 281 5

35 U.S.C. § 284 ..... *passim*

Constitutional Provision

U.S. Const. Art. I, § 8 ..... 22, 27

Legislative History

130 CONG. REC. H10525 (1984) 6, 28, 29

S. REP. NO. 98-663 (1984) 6, 29

Other Authorities

Fed. Trade Comm'n, GENERIC DRUG ENTRY PRIOR TO PATENT EXPIRATION: AN FTC STUDY (July 2002) 27

ION Announces Ruling in Appeal on WesternGeco Patent Infringement Lawsuit (July 2, 2015) 29

Mark A. Lemley, *IP in a World Without Scarcity*, 90 N.Y.U. L. Rev. 460 (2015) 27

RESTATEMENT (2D) OF TORTS § 912 (1979) 20

INTRODUCTION

By statute, patent owners who prove infringement are entitled to "damages *adequate to compensate for the infringement*, but in no event less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. § 284 (emphasis added). What damages are "adequate to compensate for the infringement" depends on the application of general tort principles to the facts of each case and can include lost profits in appropriate cases. Section 284 applies to damages for infringement under 35 U.S.C. § 271(f). Congress adopted § 271(f) in response to this Court's decision in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972). Subsection (f) defined new acts of patent infringement: Whoever, with the requisite mental state, exports components of a patented invention from the United States for combination "*outside of the United States* in a manner that would infringe the patent if such combination occurred within the United States," "shall be liable as an infringer." 35 U.S.C. § 271(f) (emphasis added). In enacting § 271(f), Congress treated a specific action within the United States (exporting from the United States with the intent to combine abroad) as sufficient to impose liability, knowing full well that the combination and ultimate use would occur abroad.

The issue in this case is whether infringers under § 271(f) should be liable for the full scope of damages available under § 284. The answer is plainly yes.

In reaching a contrary conclusion, the Federal Circuit has, once again, erected an artificial edifice nowhere supported by the text of the Patent Act—this time based on a fundamental misapplication of the presumption against extraterritoriality. In so doing,

the panel majority guts the remedies for the rights Congress created in subsection (f), departs from this Court's precedents, and interprets patent law in a manner inconsistent with the regional circuits' treatment of copyright law.

Over vigorous dissents at the panel stage, on petition for rehearing, and again on remand from this Court, the panel majority held that the presumption against extraterritoriality must be applied, not just to determine liability, but reapplied yet again to limit *damages*, even *after* liability is established. The result is to effectively eliminate lost profit damages where infringement is found under § 271(f), limiting patent owners only to a reasonable royalty. In this case, that artificial limit on available remedies made nearly a $100 million difference and allowed Respondent to facilitate the destruction of Petitioner's business model.

Neither this Court nor any other court of appeals has ever applied the presumption against extraterritoriality in such a duplicative manner. The result defeats Congress' intent in enacting § 271(f), as Congress plainly understood this new form of infringement would involve combinations abroad—leading to use and damages from infringement—and just as plainly made the full scope of damages under § 284, not just reasonable royalties, available to victims of such infringement. In addition to being inconsistent with congressional intent and more than a century of this Court's precedents, the panel majority's approach stands in stark contrast to the regional circuits' application of the predicate act doctrine to determine whether damages based on overseas sales are recoverable for acts of copyright infringement. If left unreviewed, the Federal Circuit's decision will substantially

diminish the remedies available to every patentee who would rely on § 271(f) to enforce its patents, effectively nullifying much of Congress' deliberate work in enacting § 271(f) more than thirty years ago. This Court should grant certiorari.

OPINIONS BELOW

The court of appeals' panel opinion and dissent following a GVR order from this Court (136 S. Ct. 2486) are reported at 837 F.3d 1358 (App. 1a-22a). Its previous panel opinion and dissent are reported at 791 F.3d 1340 (App. 23a-75a). And its order denying rehearing en banc, and the dissent of three judges from that order, are at 621 F. App'x 663 (App. 176a-180a).

The district court's opinion deciding post-trial motions is reported at 953 F. Supp. 2d 731 (App. 76a-140a). Its July 16 and June 29, 2012 orders—addressing motions in limine and summary judgment—are unreported and available at 2012 WL 2911968 (App. 141a-154a) and 2012 WL 2568167 (App. 155a-167a).

JURISDICTION

The court of appeals entered judgment on September 21, 2016. On December 13, 2016, the Chief Justice granted an extension to February 17, 2017, to file this petition (Docket No. 16A576). This Court has jurisdiction under 28 U.S.C. § 1254(1).

PERTINENT STATUTORY PROVISIONS

35 U.S.C. § 271(a)-(c) and (f) provide:

Infringement of patent.

(a) Except as otherwise provided in this title, whoever without authority makes, uses, offers

to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

* * *

(f)(1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

> (2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

35 U.S.C. § 284 provides in relevant part:

> **Damages.**
>
> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

STATEMENT OF THE CASE

A. Statutory Background

A patent owner may seek remedies in federal court "by civil action for infringement." 35 U.S.C. § 281. 35 U.S.C. § 271 defines patent infringement, and § 284 provides for damages upon proof of infringement.

1. Infringement (§ 271)

35 U.S.C. § 271 defines several different types of patent infringement. Subsection (a) defines direct in-

fringement as making, using, offering to sell, selling, or importing any patented invention, without a license and during the patent's term. Subsections (b) and (c) define indirect infringement—actively inducing or contributing to another's act of direct infringement. *See generally Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920 (2015); *Global-Tech Appliances v. SEB S.A.*, 563 U.S. 754 (2011).

Congress enacted subsection (f) in 1984, in response to this Court's decision in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972). In *Deepsouth*, the defendant sold a machine covered by a patent, but never assembled the full machine in the United States. Instead, the defendant shipped components in three boxes to customers abroad, who could assemble the machine within an hour. 406 U.S. at 523-24. By a 5-4 vote, this Court held that the defendant could not be liable for infringement under then-existing 35 U.S.C. § 271. The defendant's customers' acts all took place abroad. *Id.* at 527. And the defendant did not make, use, sell, or offer to sell the entire patented machine in the United States, nor induce or contribute to such acts occurring in the United States. *Id.* at 528.

Congress enacted subsection (f) to 35 U.S.C. § 271 to change that result and close what it viewed as "a loophole in patent law." 130 CONG. REC. H10525 (1984). The Senate Report accompanying the final bill described § 271(f) as a "reversal of *Deepsouth*." S. REP. NO. 98-663, at 2-3 (1984). Section 271(f) makes "liable as an infringer" one who "supplies or causes to be supplied in or from the United States" components "of a patented invention," knowing or intending that the components will be combined "outside of the United

States in a manner that would infringe the patent if such combination occurred within the United States."

In § 271(f), Congress imposed liability on a specific act taking place within the United States (exporting with the requisite intent). Congress did so knowing full well that the combination and use, and thus damages, would occur abroad. Accordingly, this Court has described § 271(f) as an "exception" to "the general rule under United States patent law that no infringement occurs when a patented product is made and sold in another country." *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 441 (2007).

2. Damages (§ 284)

Patent owners who prove infringement are entitled to damages: "the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. § 284.

Section 284 is a general damages provision that does not distinguish among types of infringement. This Court examined § 284 in *General Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983). Section 284's plain text makes clear that the damages remedy is not limited to a reasonable royalty, but such a reasonable royalty serves as an absolute floor to recovery. Rejecting an argument that § 284 did not authorize interest, *General Motors* concluded that the statute entitles a patent owner to "full compensation for 'any damages' he suffered as a result of the infringement," *id.* at 654-55 (citation omitted), and that "[w]hen Congress wished to

limit an element of recovery in a patent infringement action, it said so explicitly." *Id.* at 653.[1]

B. Factual Background

1. WesternGeco's Patents

WesternGeco developed and patented technology used in geological surveys to search for oil and gas under the ocean floor.

Under preexisting technology, a ship tows an array of streamers (miles-long cables filled with sensors) over the area to be surveyed, and an air gun sends soundwaves toward the ocean floor. Sensors in the streamers detect sound waves reflected off the earth's subsurface, and use the reflected soundwaves to map the geology under the ocean. App. 24a-25a.

ship towing streamer array

streamers detecting reflected sound waves

Surveys are expensive and time-consuming, but the resulting data are valuable to oil exploration companies. High-quality data are important because a company stands to lose hundreds of millions of dollars or more when it drills a well and finds no oil. CA App. 3072:1-18.

---

[1] Indeed, sections 271(e)(4)(C), (e)(6)(B) carve out limited exceptions to the availability of money damages in circumstances not relevant here.

WesternGeco invented "lateral steering," which allows surveyors to control the movement of the streamers, rather than simply pulling them behind the ship. Lateral steering allows for more efficient surveys, and yields higher-quality data. CA App. 531, 1281:16-1282:6, 1283:10-1288:2, 1293:3-9, 1294:8-1298:3, 1513:14-1514:10.

After nearly a decade of research and nearly a hundred million dollars of investment, WesternGeco created the "Q-Marine," the first surveying system with lateral steering. CA App. 1776:9-22, 2612:18-2613:7, 2622:9-19.

Rather than selling the Q-Marine system or licensing its patents to competitors, WesternGeco used its invention to perform lateral-steering-enabled surveys *itself* for oil companies. Because no one else had lateral steering, WesternGeco could charge a premium over conventional surveys, and could negotiate directly (rather than bidding) with customers that wanted higher-quality surveys. From 2001 until late 2007, WesternGeco had 100% of the lateral steering market. In 2007 alone, it earned more than $500 million from Q-Marine surveys. CA App. 2695:8-12, 3302:11-23.

2. ION's Infringement

ION is based in Houston. In late 2007, ION began selling a competing survey system. ION shipped components of its system—"DigiFIN" streamer positioning devices and a "Lateral Controller"—from its Louisiana warehouse to surveying companies abroad for those companies to combine the components into a surveying system that undisputedly practices WesternGeco's patents.

Equipped with ION's system, ION's customers would compete directly with WesternGeco for survey contracts. App. 40a; CA App. 7000, 7006, 4474:4-8, 1312:3-1313:9, 1491:9-1492:18. Trial evidence showed that ION's infringement generated over $3 billion for ION and its customers. CA App. 3271:11-17, 10185-86, 10244-45.

Using ION's system, competitors of WesternGeco performed 101 lateral-steering-enabled surveys. WesternGeco lost at least ten specific survey contracts (worth $6 to $45 million each) to ION's customers. App. 40a-41a. But for ION's infringement in violation of § 271(f), the jury found, WesternGeco would have obtained at least those ten contracts. App. 175a (jury verdict). And even for contracts that WesternGeco did obtain, WesternGeco was forced to lower prices to compete with ION's customers. CA App. 1314:22-1315:17, 2695:13-16, 7340.

ION developed its competing system as part of a plan "to compete in the market space that WesternGeco has created." CA App. 8052, 7000, 7006. ION undisputedly knew of WesternGeco's patents before it made its first sale. CA App. 3790:11-16, 3996:20-3997:13. Indeed, ION's customers concluded that surveys using ION's system would infringe WesternGeco patents, and requested indemnity from ION. CA App. 8070-74, 7072-73, 7338, 2099:16-2100:9, 7091-99, 8062-68, 5243:6-5244:16, 8069, 5553:17-5554:13.

C. District Court Proceedings

WesternGeco sued ION for infringement under 35 U.S.C. §§ 271(f)(1) and (f)(2). ION "supplie[d]... from the United States" components "of a patented invention" for combination outside the United States by its

customers, and otherwise met all elements of both subsections of § 271(f).[2]

The jury found ION liable for infringement, and awarded damages, with a $12.5 million royalty component and a $93.4 million lost profits component. App. 170a-175a. The jury also concluded that ION's infringement was willful. App. 174a-175a. The district court upheld the verdict, App. 76a-105a, but did not find "objective" willfulness under the Federal Circuit's governing standard before this Court's decision in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016).

D. Appeals

The court of appeals unanimously affirmed the judgment that ION was liable for infringement and the district court's finding of no objective willfulness. The court rejected ION's challenges to WesternGeco's ownership of some of the patents, App. 28a-35a, and rejected ION's challenge to a pretrial ruling that ION infringed one patent claim under § 271(f). App. 35a-40a (majority decision); App. 54a (dissent, agreeing that ION is liable). The panel, however, divided over the issue of remedies.

1. Reversal of Lost Profits

The panel majority held that the jury's award of lost profits—approximately $93 million of the $106 million award—must be reversed. App. 40a-48a. Relying primarily on the presumption against extraterritoriality and an earlier Federal Circuit decision, *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711

---

[2] WesternGeco also sued ION's customer Fugro. Fugro settled during trial.

F.3d 1348 (Fed. Cir. 2013), the majority concluded that profits lost outside of the United States are unavailable as a matter of law despite § 271(f)'s express coverage of combinations abroad arising from U.S. exports. App. 40a-48a.

Power Integrations, however, concerned infringement only under 35 U.S.C. §§ 271(a) and (b)—*not § 271(f)*. The patent covered chips used in electronic power supplies. The patentee sought damages not only for chips made or sold in the United States, but for *worldwide* sales of *all* the defendant's chips—including chips that were entirely manufactured and sold abroad and never entered the United States. *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 589 F. Supp. 2d 505, 510-11 (D. Del. 2008). The foreign sales in *Power Integrations* plainly fell outside of § 271(a). Moreover, those sales did not have the nexus to the United States that § 271(f) requires—namely, export of components from the United States with the requisite intent. Thus, the sales in *Power Integrations*—unlike here—were "not infringement at all" under § 271, and could not be the basis for damages, as the Patent Act provides for "damages adequate to compensate *for the infringement*." 711 F.3d at 1371 (quoting 35 U.S.C. § 284).

Despite these fundamental differences, the panel majority in this case treated *Power Integrations* as legally controlling here. The majority disregarded that infringement under § 271(f) was complete upon ION's export of the components (with the requisite intent that the components be combined abroad). Instead, the majority denied lost profits merely because the survey contracts WesternGeco lost by ION's infringement "were all to be performed on the high seas, outside the

jurisdictional reach of U.S. patent law." App. 41a. The majority found that WesternGeco was "still entitled to a reasonable royalty," App. 45a, but eliminated $93 million of the jury's $105 million damage award. App. 40a-48a, 52a-53a.

Judge Wallach dissented from the reversal of lost profits. App. 54a-75a. In his view, the majority misread *Power Integrations*, conflated damages with liability, failed to account for differences between § 271(a) and § 271(f), and created a "near-absolute bar to the consideration of a patentee's foreign lost profits [that] is contrary to the precedent both of this court and of the Supreme Court." App. 75a.

WesternGeco petitioned for rehearing en banc, which the court denied. App. 176a-177a. Judge Wallach, joined by Judges Newman and Reyna (the author of *Power Integrations*), dissented. App. 178a-180a. The dissent reaffirmed the points made in Judge Wallach's panel dissent, and added that the majority decision was "at odds with the longstanding and analogous 'predicate act' doctrine in the copyright context[, which] holds that a copyright owner 'is entitled to recover damages flowing from the exploitation abroad of ... domestic acts of infringement.'" App. 179a (quoting and citing cases from three circuits).

2. GVR and Remand

WesternGeco petitioned for certiorari, raising two questions:

> 1. Whether the court of appeals erred in holding that damages based on a patentee's so-called "foreign lost profits" are categorically unavailable in cases of patent infringement under 35 U.S.C. § 271(f).

> 2. Whether the Court should hold this petition for *Halo* [*Electronics, Inc. v. Pulse Electronics, Inc.*, No. 14-1513] and *Stryker* [*Corp. v. Zimmer*, No. 14-1520].[3]

Pet. for Cert. at ii, *WesternGeco LLC v. ION Geophysical Corporation*, No 15-1085 (filed Feb. 26, 2016). After this Court decided *Halo* and *Stryker*, it granted WesternGeco's petition and issued a GVR order. 136 S. Ct. 2486 ("Judgment vacated and case remanded to the United States Court of Appeals for the Federal Circuit for further consideration in light of *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, [] 136 S. Ct. 1923 [] (2016).").

On remand, the Federal Circuit panel majority vacated the district court's judgment solely as to the denial of enhanced damages and remanded that limited issue "for further proceedings consistent with this opinion and with the Supreme Court's decision in *Halo*." App. 2a. In all other respects, the Federal Circuit "reinstate[d] [its] earlier opinion and judgment," App. 2a-3a, including as to lost-profit damages. App. 4a-5a & n.1.

Judge Wallach again dissented in part, explaining further why the reinstated portion of the Federal Cir-

---

[3] In a clause not at issue in this petition, 35 U.S.C. § 284 provides that "the court may increase the damages up to three times the amount found or assessed." In *Halo* and *Stryker*, this Court overruled the Federal Circuit's legal framework for awarding enhanced damages under 35 U.S.C. § 284. Because the district court and the Federal Circuit had both applied that now-obsolete framework in this case to the question whether to enhance WesternGeco's damages, WesternGeco's petition requested a GVR order on that issue.

cuit's earlier decision established an erroneous rule limiting damages in § 271(f) patent cases. App. 13a-22a. In Judge Wallach's view, ION's challenge to the lost profits portion of the damage award raised "complex factual issues" of proximate cause—i.e., whether there is a sufficient connection between ION's misconduct and WesternGeco's damages. App. 21a-22a. Such factual issues are the province of trial court discretion and jury factfinding, to be reviewed deferentially on appeal. *Id.* Instead, the majority resolved those issues by formulating "[a]n unduly rigid rule barring the district court from considering foreign lost profits even when those lost profits bear a sufficient relationship to domestic infringement." App. 22a. In Judge Wallach's view, the majority's categorical approach—in essence barring lost profits damages in § 271(f) cases—was akin to the "class of unduly rigid rules the Supreme Court has repeatedly cautioned against, including in its [*Halo*] decision that led to the present remand." App. 17a (citations and internal quotation marks omitted).

REASONS TO GRANT THE WRIT

I. The Federal Circuit's Decision is Fundamentally Wrong, Inconsistent With This Court's Precedents, And Misapplies the Presumption Against Extraterritoriality.

A. The Federal Circuit's Decision is Contrary to This Court's Precedent Applying the Presumption Against Extraterritoriality.

The panel majority's decision depends on misconstruction of the Patent Act and a misapplication of the presumption against extraterritorial application of U.S. law. Specifically, the majority relied on a princi-

ple that this Court has never embraced and that is particularly inapposite in the § 271(f) context: that the presumption against extraterritoriality must be applied first to determine what *conduct* subjects a defendant to liability, and then *again* to limit *remedies* once liability is established. App. 41a-48a; *see also Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*, 807 F.3d 1283, 1306 (Fed. Cir. 2015) (citing the panel's ruling in this case for the proposition that the presumption against extraterritoriality "applies not just to identifying the conduct that will be deemed infringing but also to assessing the damages that are to be imposed for domestic liability-creating conduct.").

The presumption against extraterritoriality is, of course, a well-known canon of statutory construction. *RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090, 2100 (2016). The presumption aids courts in "discern[ing] whether an Act of Congress regulating conduct applies abroad." *Kiobel v. Royal Dutch Petroleum Co.*, 133 S. Ct. 1659, 1664 (2013) (emphasis added). Courts presume that statutes regulating conduct do not apply abroad unless traditional tools of statutory interpretation reveal "a clear indication of extraterritorial effect." *RJR Nabisco*, 136 S. Ct. at 2102; *Morrison v. Nat'l Austl. Bank, Ltd.*, 561 U.S. 247, 255 (2010). The presumption is longstanding, *see, e.g.*, *United States v. Palmer*, 16 U.S. (3 Wheat.) 610, 633-34 (1818), and "applies with particular force in patent law." *Microsoft*, 550 U.S. at 453-54.

Section 271(f) provides a "clear indication" that Congress wanted to capture certain conduct with a U.S. nexus and a foreign impact. In particular, Congress treated the export of components from the United States as a sufficient territorial nexus to subject the

exporter to infringement liability for facilitating the combination and sale abroad of those components. To that extent, it is an "exception" to "the general rule under United States patent law that no infringement occurs when a patented product is made and sold in another country." *Microsoft*, 550 U.S. at 441. Of course, the nexus to the United States was critical to Congress' judgment and so the presumption against extraterritoriality is important to determining whether the United States conduct is sufficient to support liability for foreign sales. Thus, in *Microsoft* this Court applied the presumption in concluding that § 271(f)'s reference to "suppl[ying]" "components" of a patented invention did not apply to Microsoft's export of a software master disk for copying abroad. *Id.* at 455-56.

But whatever the scope of *liability* under a statute (given the presumption against extraterritoriality), this Court has not taken the further step of holding that the presumption against extraterritoriality applies yet again to limit *damages*. Rather, this Court's recent cases applying the presumption against extraterritoriality focus on the substantive elements of a statutory cause of action; none purport to apply the presumption again to limit the available damages once liability is established. *See RJR Nabisco*, 136 S. Ct. at 2101-2111 (civil RICO causes of action); *Kiobel*, 133 S. Ct. at 1665-66 (Alien Tort Statute); *Morrison*, 561 U.S. at 262 (conduct prohibited under securities laws); *Microsoft*, 550 U.S. at 454-56 (§ 271(f)); *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 255 (1991) (employment practices).

That double-counting of the presumption against extraterritoriality has no support as a general matter, and it would be particularly inapposite in the context

of § 271(f). Congress was absolutely clear about its intent to reach extraterritorial acts of combination and uses if they followed an export from the United States with the requisite intent. To limit the damages inflicted by those combinations and sales because they occurred abroad is to eviscerate what Congress intended in enacting § 271(f) and overruling *Deepsouth*. If the components were exported from the United States with the requisite intent, then Congress positively wanted to provide a damages remedy for the resulting foreign combinations and sales. While it makes perfect sense to apply the presumption to the condition, it positively frustrates Congress' will to apply it to limit damages where, as here, the condition is satisfied.

The Federal Circuit's approach would allow the presumption against extraterritoriality to swallow most of § 271(f), largely negating the exception created by the statute's plain language. Both subsections of § 271(f) refer to the intended or actively induced "combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States" as part of the definition of infringement. The presumption against extraterritoriality appropriately applies to resolve questions about what actions incur infringement liability under § 271(f). Once infringement liability is established, however, there is no reason to apply the presumption against extraterritoriality *again* to impose artificial limits on the remedies available. It is counterintuitive, to say the least, that such a "combination outside the United States" is part of the definition of infringement, yet the presumption against extraterritoriality forbids *damages* flowing directly from that combination. The court of appeals cited no authority for that proposition other than its own *Power*

Integrations decision. But *Power Integrations* dealt with infringement under § 271(a), which reflects no comparable congressional judgment to target certain extraterritorial conduct as long as a specified nexus to the United States is satisfied.

The panel majority's application of the presumption against extraterritoriality would also swallow the rule of § 284 and *General Motors* that patentees are entitled to "full compensation," and that "element[s] of recovery" should not be limited unless Congress has "said so explicitly." 461 U.S. at 653. *See* § I.B, *infra*. The decision below uses the presumption against extraterritoriality to turn § 284 on its head: if Congress wished to *permit* an element of recovery (such as lost profits) in a § 271(f) case, it must say so explicitly.

Such a rule amounts to a presumption that not only does Congress not legislate extraterritorially—but when it does, it does so as ineffectively as possible. This Court has never endorsed any such principle, and has consistently rejected arguments for a presumption that Congress enacts ineffective or self-defeating laws. *Am. Broad. Cos. v. Aereo, Inc.*, 134 S. Ct. 2498, 2511 (2014); *The Emily*, 22 U.S. 381, 388, 390 (1824); App. 64a n.2 (dissent, noting "the majority's statement ignores the critical distinction between *whether* a defendant is liable and *the amount for which* a defendant is liable").

That is not to say that there are no meaningful limits on damages in patent cases, either generally or in § 271(f) cases in particular. Patent infringement is a tort. *Carbice Corp. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 33, *supplemented* 283 U.S. 420 (1931); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 500-01 (1964). And common-law tort principles such as

proximate cause and foreseeability appropriately cabin damages in patent cases. *See* RESTATEMENT (2D) OF TORTS § 912 (1979); *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1393-94 (2014) (discussing proximate cause). As Judge Wallach's dissenting opinions in this case note, those principles—rather than artificial rules with no statutory basis—should have driven the damages analysis here. App. 17a-22a; App. 66a ("*Power Integrations* ... merely applies the sensible requirement that there be an appropriate connection between the infringing activity and the resulting lost sales.").

B. The Federal Circuit's Decision is Contrary to This Court's Precedents Regarding Damages for Patent Infringement.

The Federal Circuit's categorical bar to lost-profits damages in § 271(f) cases is contrary to the text of § 284 and to this Court's decision in *General Motors*. In *General Motors*, this Court construed § 284 and rejected the argument that interest should only be awarded in exceptional circumstances. 461 U.S. at 656-57. The Court explained that § 284 ensures that a "patent owner would in fact receive *full compensation* for 'any damages' he suffered as a result of the infringement." *Id.* at at 654-55 (emphasis added)). That explanation is consistent with the text of § 284, which makes plain that reasonable royalties are a floor, not a ceiling. That explanation is likewise consistent with the principle that damages for patent infringement—as with most torts—should put the patentee in the position he would have been but for the infringement. *Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 552 (1886) ("the difference between his pecuniary condition after the

infringement, and what his condition would have been if the infringement had not occurred"); *see also Coupe v. Royer*, 155 U.S. 565, 582 (1895); *Aro*, 377 U.S. at 507. And it is inconsistent with the notion that, in adopting § 271(f), Congress contemplated that something less than the full panoply of patent damages would be available.

Indeed, *General Motors* could not be clearer: "When Congress wished to limit an element of recovery in a patent infringement action," *General Motors* explained, "it said so explicitly." 461 U.S. at 653. It did nothing of the sort here. By contrast, in adopting 35 U.S.C. §§ 271(e) (4)(C), (e)(6)(B), Congress did exactly that. The panel majority's approach here is, thus, neither sanctioned by the text of § 284 nor this Court's decision in *General Motors*.

The court of appeals' decision is also contrary to *Goulds Manufacturing Co. v. Cowing*, 105 U.S. 253 (1881), and *Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641 (1915). *Goulds* holds that transactions abroad *can* be the basis of an award of lost profits damages for patent infringement. *Goulds* relied in part on gas pumps sold in Canada to calculate an award of lost profits. *Gould* explained that the appellant proved that the profits were, in fact, lost because of the infringement—it could easily, and with reasonable promptness, [have filled] every order that was made" by the defendant. App. 57a-58a (dissent, internally quoting *Goulds*, 105 U.S. at 256). Likewise, *Dowagiac* reaffirmed the rule of *Goulds* by implication, though it rejected a portion of the damages award. Some of the defendants were wholesalers who purchased drills in Canada and resold them in Canada. 235 U.S. at 643, 650. *Dowagiac* distinguished *Goulds*

by noting that in *Goulds* "the defendant made the infringing articles in the United States. Here, while they were made in the United States, they were not made by the defendants." *Id.* at 650; *see also* App. 58a (dissent, discussing *Dowagiac*).

Consistent with the "full compensation" principle articulated in *General Motors*, *Goulds* holds—and *Dowagiac* reaffirms—that so-called "foreign" sales can be the basis of an award of lost profits, *so long as they are tied to infringing activity in the United States.* The law does not require more. The panel majority's holding that "lost profits cannot be awarded" for "lost contracts for services to be performed abroad," App. 40a, is directly contrary to *Goulds* and these basic principles of damages law.

II. The Federal Circuit's Decision Creates a Patent-Specific Rule in Tension With Copyright Law's Predicate Act Doctrine.

As three judges noted in dissenting from denial of rehearing en banc, the decision below conflicts with the longstanding "predicate act" doctrine of copyright law adopted by the regional courts of appeals. App. 178a-179a. This Court should, thus, grant review to resolve this split in approach to closely related areas of law.

Patent law and copyright law have a "historic kinship." *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984). They come from the same clause of the Constitution. *Accord* U.S. Const. Art. I, § 8; *see Fox Film Corp. v. Doyal*, 286 U.S. 123, 131 (1932). And this Court has historically construed both statutes with reference to the same background principles. *See, e.g.*, *Global-Tech*, 563 U.S. at 763 ("Our decision in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S.

913 (2005) ... looked to the law of contributory patent infringement for guidance in determining the standard to be applied in a case claiming contributory copyright infringement."); *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 392 (2006) (addressing injunctions under the Patent Act and noting "[t]his approach is consistent with our treatment of injunctions under the Copyright Act."); *Eldred v. Ashcroft*, 537 U.S. 186, 201-02, 215-17 & n.22 (2003) (examining patent law to inform copyright law question and recognizing that reasoning from one body of law may apply with particular force to the other); *Fox Film*, 286 U.S. at 131 ("[I]n this aspect royalties from copyrights stand in the same position as royalties from the use of patent rights, and what we have said as to ... copyrights applies as well, mutatis mutandis, to patents ....").

In contrast to the rule the panel majority invented for patents in this case, at least three circuits have held that a copyright owner can obtain damages based on foreign sales so long as the initial infringement occurred in the United States and the foreign sales are directly linked to that infringement. *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52 (2d Cir. 1939) (L. Hand, J.), *aff'd* 309 U.S. 390 (1940); *Tire Eng'g & Distrib., LLC v. Shandong Linglong Rubber Co.*, 682 F.3d 292, 307-08 (4th Cir. 2012); *Los Angeles News Serv. v. Reuters Television Int'l, Ltd.*, 149 F.3d 987, 992 (9th Cir. 1998).[4] No circuits hold otherwise, and dis-

---

[4] The Federal Circuit has also acknowledged copyright law's predicate act doctrine. *Halo Creative & Design Ltd. v. Comptoir Des Indes Inc.*, 816 F.3d 1366, 1371 (Fed. Cir. 2016). Two other Circuits have also either acknowledged the doctrine in dictum or applied the same principle without explicitly calling it the "predicate act doctrine." *See Liberty Toy Co. v. Fred Silber Co.*, 149 F.3d 1183 (table), 1998 WL 385469, at *3 (6th Cir. 1998) (unpublished)

trict courts in three other circuits have acknowledged or applied the doctrine.[5]

Tellingly, Judge Hand's opinion in *Sheldon* relied explicitly on *Goulds* and *Dowagiac*—cases from this Court addressing *patent infringement* damages for the operative principle. 106 F.2d at 52. The *Sheldon* defendant produced a movie using copyrighted material, made negatives in the United States, and showed the film abroad. *Id.* Copying the negatives was forbidden by copyright law. *Id.* Thus, *Sheldon* reasoned, "[t]he plaintiffs acquired an equitable interest in [the copies] as soon as they were made, which attached to any profits from their exploitation." *Id.* And because the exhibition abroad was based on copying in the United States, the court "need not decide whether the law of those countries" recognized the plaintiff's copyright. *Id.* (citing *Goulds* and *Dowagiac*). This Court affirmed (albeit without directly addressing the predicate act doctrine). 309 U.S. 390 (1940).

("[A]s long as some act of infringement occurred in the United States, the Copyright Act applies."); *Palmer v. Braun*, 376 F.3d 1254, 1258 (11th Cir. 2004) (per curiam) (citing *Sheldon*)). Over a dissent, the Ninth Circuit in *Los Angeles News Service v. Reuters Television International, Ltd.* recognized the predicate act doctrine, but limited the plaintiff's damages to the infringer's profits. 340 F.3d 926, 931 (9th Cir. 2003); *see also id.* at 932-33 (Silverman, J., dissenting).

[5] *See ICONICS, Inc. v. Massaro*, 192 F. Supp. 3d 254, 262-63 (D. Mass. 2016); *Palmer/Kane LLC v. Houghton Mifflin Harcourt Publ'g Co.*, No. 13-CV-11030, 2014 WL 183774, at *3 (D. Mass. Jan. 16, 2014); *Bavendam v. Pearson Educ., Inc.*, No. 13-CV-3096, 2013 WL 5530008, at *5-*6 (D.N.J. Oct. 3, 2013); *Geophysical Serv. Inc. v. ConocoPhillips Co.*, No. 15-CV-2766, 2016 WL 2839286, at *3-*5 (S.D. Tex. May 13, 2016).

Following *Sheldon*, the Second Circuit has repeatedly reaffirmed the predicate act doctrine, *Update Art, Inc. v. Modiin Publishing, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988). Other circuits have have also adopted the doctrine, and no circuit to Petitioners' knowledge has rejected it. *See Tire Eng'g*, 682 F.3d at 306 (describing the doctrine as "fundamental"). Each circuit has given due regard to the presumption against extraterritoriality and concluded that that presumption is not violated because the predicate act doctrine is rooted in domestic wrongful conduct and cabined by safeguards such as proximate cause and statutes of limitations. *See, e.g.*, *Tire Eng'g*, 682 F.3d at 306-08; *Palmer*, 376 F.3d at 1258.

To be sure, copyright law and patent law "are not identical twins," doctrine from one area should not be imported unthinkingly into the other, and differences between the statutes must be respected. *Sony*, 464 U.S. at 439 n.19. But nothing in the Patent Act's text or history is incompatible with the principles underlying the predicate act doctrine. Quite the opposite: as noted, Judge Hand's opinion in *Sheldon* relied on two of this Court's patent cases (*Goulds* and *Dowagiac*). Further, Congress' enactment of § 271(f) is an explicit recognition that patentees should have recourse where domestic conduct causes injury abroad. More fundamentally, the Federal Circuit's ruling in this case was not based on any text in the Patent Act, but instead on a judicial assessment that—contrary to the Second, Fourth, Ninth, and Eleventh Circuits in copyright cases—it follows from the presumption against extraterritoriality that damages for so-called "foreign lost profits" cannot lie. There is no principled basis for patent and copyright law to take different approaches, and

this Court should grant certiorari to decide which is correct.

III. The Question Presented Is Important To The Enforcement of Section 271(f).

Section 271(f) is an important provision of the Nation's patent laws, which Congress adopted in response to what was, in its view, an unduly narrow approach to the rights and remedies of patent owners. However, in its decision below, the panel majority has effectively eviscerated one of the principal remedies that Congress provided for infringement under § 271(f). The gap Congress closed by enacting § 271(f) involved combinations and sales abroad. As the dissenting judge explained, by establishing a "near-absolute bar to the consideration of a patentee's foreign lost profits," App. 75a, the panel majority eviscerated Congress' intent to prohibit such acts and provide damages as a remedy.

Here, as in all other patent cases, a patent owner should be able to recover its full measure of damages where the evidence supports it under basic tort-law principles. Indeed, Congress made clear in §284 that reasonable royalties are a floor, not a ceiling. Nothing in the text nor structure of the patent laws supports a § 271(f) exception to those time-tested principles. And it would be particularly anomalous to limit damages for infringement under § 271(f) due to the foreign locus of the combination, because Congress expressly aimed to reach foreign combinations that follow an export from the United States with the requisite intent.

The ability of patentees to collect profits lost due to competition caused by infringement is important to the patent system, and grounded in the Constitution. Under Article I, Section 8, Congress is empowered to offer

limited property rights to inventors as an incentive to innovate: "[F]or limited Times," inventors receive "*the exclusive Right*" to their inventions, after which those inventions become part of the public domain. U.S. Const. Art. I, § 8 (emphasis added).

That exchange (innovation and disclosure in exchange for exclusive property rights) is particularly important where—as it often is, and was here—the cost of inventing is high and the cost of copying is low. *See, e.g.*, Mark A. Lemley, *IP in a World Without Scarcity*, 90 N.Y.U. L. Rev. 460, 482 (2015). A company that recoups its research and development costs by charging $10 for a patented product during the patent term is not made whole by "royalties" from an infringing competitor who can sell essentially at cost, for $1 per product. *See* Fed. Trade Comm'n, GENERIC DRUG ENTRY PRIOR TO PATENT EXPIRATION: AN FTC STUDY at viii (July 2002) ("[A] generic applicant's potential liability for lost profits on the brand-name drug will usually vastly exceed its own potential profits after market entry."). The basic patent bargain promises a monopoly for a reason, and the lost-profits remedy is necessary *ex ante* to induce innovators to undertake the investment necessary to invent. The promised monopoly is dramatically diluted if others can practice the invention right away in exchange for only royalties.

By categorically denying lost profits to patentees whose businesses involve exports, the Federal Circuit creates perverse incentives that are readily apparent. Innovators in WesternGeco's situation considering whether to invest in inventions that are readily broken down into component parts for export and assembly (including on the high seas) will know, *ex ante*, that the patent laws will offer them relatively little protection

even against adjudged infringers under § 271(f). Potential infringers such as ION will know *ex ante* that, for patents whose owners rely on § 271(f), they risk little from infringing those patents other than a potential tax on their profits, in the form of royalty damages. This lowers the risk associated with infringement and thereby discourages fundamental innovations.

Moreover, the Federal Circuit's rule invites domestic manufacturers seeking to avoid or minimize patent liability *to do exactly what was done in Deepsouth*, and engage in the precise conduct that § 271(f) was adopted to deter—avoid assembling infringing products in the U.S. and instead ship U.S.-made components overseas for final assembly. Under the decision below, doing so effectively eliminates the risk of lost-profit damages, leaving only the potential for "royalties" based on the cost of transferring components, rather than "make-whole" damages based on the value of the fully assembled system. Such a pathway to what might be called "efficient infringement" from the infringer's perspective could make even willful infringement palatable, by reducing the threat posed by treble damages. Needless to say, that cannot be what Congress intended when it adopted § 271(f) to close the "loophole" created by *Deepsouth*. 130 CONG. REC. H10525.

Those concerns are not hypothetical; this case vividly illustrates them. WesternGeco developed an invention at substantial cost, and proved to the jury's satisfaction that ION's infringement caused it more than $100 million in lost surveys. WesternGeco is not made whole by "royalties" from a competitor like ION who can profit by selling the competing system for little more than the cost of manufacturing and shipping it. Meanwhile, the evidence showed that ION made a *calculated decision*

to infringe WesternGeco's patents and to structure its business in a way to try to minimize its damages risk. To be clear, ION knew of WesternGeco's patents, ION's customers requested indemnities for these specific patents, and the jury found that ION's infringement was willful. *See Statement of the Case § B.2, supra.* Removing any doubt that the Federal Circuit rendered WesternGeco's victory Pyrrhic at best—and that ION's choice to infringe paid off—ION issued a press release the day the court of appeals' opinion issued upholding the royalty damages but reversing lost profits, hailing the result as "a total victory for our Company."[6]

There can be no doubt that the Federal Circuit's approach substantially undoes Congress' work in enacting § 271(f). Yet, Congress thought this Court's decision in *Deepsouth* significant enough that it enacted § 271(f) in direct response.[7] Legislative history indicates that Congress thought that a legislative solution was necessary to prevent precisely the sorts of perverse incentives the Federal Circuit's decision creates. *See* S. REP. NO. 98-663, at 3 (§ 271(f) is "needed to help maintain a climate in the United States conducive to invention, innovation, and investment."); *Id.* ("Permitting the subterfuge which is allowed under the *Deepsouth* interpretation of the patent law," the Senate Report

---

[6] *ION Announces Ruling in Appeal on WesternGeco Patent Infringement Lawsuit* (July 2, 2015) (quoting ION's CEO), *at* http://www.iongeo.com/News_and_Events/Press_Releases/Press_Release/?id=2064596 (last visited Feb. 15, 2017).

[7] *See Microsoft*, 550 U.S. at 442-43; *see also* 130 CONG. REC. H10525 (daily ed. Oct. 1, 1984) (§ 271(f) "responds to ... *Deepsouth*") (Rep. Kastenmeier); S. REP. NO. 98-663, at 2-3 (1984) ("reversal of *Deepsouth*"); 130 CONG. REC. H10525 (§ 271(f) is "a legislative solution to close a loophole in patent law.").

accompanying the final bill explained, "weakens confidence in patents among businesses and investors."). Given this history, it is no surprise that three times in the past decade this Court has requested the Solicitor General's views in cases involving § 271(f). *Microsoft Corp. v. AT&T Corp.*, 547 U.S. 1096 (2006) (CVSG order); *Maersk Drilling USA, Inc. v. TransOcean Offshore Deepwater Drilling, Inc.*, 134 S. Ct. 381 (2013) (CVSG order); *Life Techs. Corp. v. Promega Corp.*, 136 S. Ct. 290 (2015) (CVSG order). In two cases, the Solicitor General urged the Court to grant certiorari, while the third settled before the Solicitor General filed a brief. In both briefs, the Solicitor General emphasized the importance of § 271(f) and the serious consequences of the Federal Circuit tampering with the balance of incentives Congress struck in that statute. Br. of United States as Amicus Curiae at 17-19, *Microsoft Corp. v. AT&T Corp.*, No. 05-1056 (filed Sept. 29, 2006); Br. of United States as Amicus Curiae at 20-21, *Life Technologies Corp. v. Promega Corp.*, No. 14-1538 (filed May 11, 2016).

The Federal Circuit's ruling in this case is much more far-reaching than *Microsoft* or *Life Technologies*. In contrast to those cases, the ruling here is categorical. It affects the *scope of remedies* available in virtually all § 271(f) cases. What Congress gave patentees with § 271(f), the court of appeals largely took away by sharply limiting the remedies available to patentees who might rely on it. Whereas § 284 provides patentees with reasonable royalties as a floor —"in no event *less* than a reasonable royalty for the use of the invention made by the infringer"—the court of appeals has effectively converted that floor into a ceiling for victims of § 271(f) infringement. *See* App. 45a. When Congress wants to limit a patent owner to reasonable roy-

alty damages, it knows exactly how to do so. *See, e.g.*, 35 U.S.C. § 271(e)(6)(B) . It did nothing of the sort here, and neither the text of § 271(f) nor § 284 supports the curtailment of patent damages adopted by the panel majority. Thirty years after Congress legislated to overrule *Deepsouth*, it should not be forced to pass new legislation to say "we really mean it."

CONCLUSION

The petition for a writ of certiorari should be granted.

FEBRUARY 2017

Respectfully submitted,

TIMOTHY K. GILMAN
LESLIE M. SCHMIDT
KIRKLAND & ELLIS LLP
601 Lexington Avenue
New York, N.Y. 10022
(212) 446-4800

PAUL D. CLEMENT
Counsel of Record
GREGG F. LOCASCIO, P.C.
JOHN C. O'QUINN
WILLIAM H. BURGESS
KIRKLAND & ELLIS LLP
655 Fifteenth St. N.W.
Washington, D.C. 20005
(202) 879-5000
paul.clement@kirkland.com

APPENDIX

APPENDIX CONTENTS

September 21, 2016 Opinion and Dissent,
837 F.3d 1358 (Fed. Cir.) 1a

July 2, 2015 Opinion and Dissent,
791 F.3d 1340 (Fed. Cir.) 23a

June 19, 2013 Memorandum and Order,
953 F. Supp. 2d 731 (S.D. Tex.) 76a

July 16, 2012 Memorandum and Order,
2012 WL 2911968 (S.D. Tex.) 141a

June 29, 2012 Memorandum and Order,
2012 WL 2568167 (S.D. Tex.) 155a

May 7, 2014 Final Judgment (S.D. Tex.) 168a

August 16, 2012 Jury Verdict (S.D. Tex.) 170a

October 30, 2015 Order Denying Rehearing,
and Statement of Judge Wallach,
Dissenting from Denial of Rehearing,
621 F. App'x 663 (Fed. Cir.) 176a

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

WesternGeco L.L.C.,
Plaintiff-Cross-Appellant,
v.
ION Geophysical Corporation,
Defendant-Appellant.

WesternGeco L.L.C.,
Plaintiff-Appellant,
v.
ION Geophysical Corporation,
Defendant-Appellee.

Nos. 2013-1527, 2014-1121, 2014-1526, 2014-1528

September 21, 2016

Before DYK, WALLACH, and HUGHES, *Circuit Judges*.

Opinion

Opinion dissenting in part filed by *Circuit Judge* WALLACH.

DYK, *Circuit Judge*.

This case returns to us on vacatur and remand from the Supreme Court, "for further consideration in light of *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 579 U.S. —— (2016)." *WesternGeco LLC v. ION ION Geophysical Corp.*, 136 S. Ct. 2486 (2016) (Mem.). On remand, we vacate the district court's judgment with respect to enhanced damages for

willful infringement under 35 U.S.C. § 284 and reinstate our earlier opinion and judgment in all other respects. We remand for further proceedings consistent with this opinion and with the Supreme Court's decision in *Halo*.

BACKGROUND

The vacated decision, *WesternGeco L.L.C. v. ION Geophysical Corp.* ("*WesternGeco II*"), 791 F.3d 1340 (Fed. Cir. 2015), addressed a patent infringement suit by WesternGeco L.L.C. ("WesternGeco") against ION Geophysical Corp. ("ION") for infringement of, *inter alia*, U.S. Patent Nos. 6,691,038, 7,080,607, 7,162,967, and 7,293,520. *See WesternGeco L.L.C. v. ION Geophysical Corp.* ("*WesternGeco I*"), 953 F. Supp. 2d 731 (S.D. Tex. 2013). The jury found infringement and no invalidity as to all asserted claims and awarded WesternGeco $93.4 million in lost profits and a reasonable royalty of $12.5 million. The jury also found that ION's infringement had been subjectively reckless under the "subjective" prong of the then-prevailing two-part test articulated in *In re Seagate, LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc).

After trial, WesternGeco moved for enhanced damages for willful infringement under 35 U.S.C. § 284. ION moved for judgment as a matter of law ("JMOL") of no willful infringement, contending that WesternGeco had failed to prove that it was either objectively or subjectively reckless in its infringement. The district court held that ION was not a willful infringer meriting enhanced damages, finding that ION's positions were reasonable and not objectively baseless and thus that the objective prong

of the *Seagate* test had not been satisfied. *WesternGeco I*, 953 F. Supp. 2d at 753. Because the district court found no objective recklessness on the part of ION, it did not reach ION's JMOL motion seeking to set aside the jury's finding of subjective recklessness. *Id.*

ION appealed to our court, asking us, *inter alia*, to reverse the district court's award of lost profits. WesternGeco cross-appealed, challenging the district court's refusal to award enhanced damages. Our opinion issued on July 2, 2015. *WesternGeco II*, 791 F.3d at 1340. In section III of that opinion, we reversed the lost profits award, holding that WesternGeco was not entitled to lost profits resulting from foreign uses of its patented invention. *Id.* at 1351. On this issue Judge Wallach dissented. *Id.* at 1354 (Wallach, J., dissenting-in-part). In section V of the opinion of the court, we unanimously affirmed the district court's denial of WesternGeco's motion for enhanced damages, holding that ION's noninfringement and invalidity defenses were not objectively unreasonable and, as such, we agreed with the district court that the objective prong of the *Seagate* test had not been met. *Id.* at 1353–54.

WesternGeco petitioned for certiorari on February 26, 2016. Petition for Writ of Certiorari, *WesternGeco, LLC v. ION Geophysical Corp.*, 2016 WL 792196 (U.S. Feb. 26, 2016) (No. 15–1085) ("Petition"). The petition, *inter alia*, requested that the petition be held in view of *Halo Electronics, Inc. v. Pulse Electronics, Inc.* and *Stryker Corp. v. Zimmer, Inc.*, which were argued February 23, 2016, and involved the standard for enhanced damages.

WesternGeco's petition argued that "[i]f the result of *Halo* and *Stryker* is other than a complete affirmance and approval of Federal Circuit law, the Court should grant certiorari, vacate, and remand [("GVR")] for further consideration." *Id.* at *31.

The Supreme Court decided *Halo* on June 13, 2016. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 579 U.S. – ——, 136 S. Ct. 1923 (2016). The Supreme Court granted certiorari in this case and issued its GVR order on June 20, 2016, remanding the case to us "for further consideration in light of *Halo*." *WesternGeco*, 136 S. Ct. at 2486. We recalled our mandate on July 25, 2016. We now consider what action is appropriate in this case in view of the Supreme Court's remand.

DISCUSSION

The Supreme Court's *Halo* decision was solely concerned with the question of enhanced damages for patent infringement under 35 U.S.C. § 284 and does not affect other aspects of our earlier opinion.[1] As

---

[1] The opinion dissenting-in-part "join[s] the majority's opinion to the extent it applies the Supreme Court's decision in *Halo* on the issue of enhanced damages for willful infringement under 35 U.S.C. § 284 (2012)," but disagrees on the issue of lost profits, "for the reasons articulated in [the] original dissent." Dissent at 1365. In fact, the issue of lost profits is not properly before us. WesternGeco's petition for certiorari presented two questions. Petition, 2016 WL 792196, at *ii. The first was lost profits—namely, "[w]hether the court of appeals erred in holding that damages based on a patentee's so-called 'foreign lost profits' are categorically unavailable in cases of patent infringement under 35 U.S.C. § 271(f)." *Id.* The second was "[w]hether the Court should hold this Petition for *Halo* and *Stryker*." *Id.* The scope of the Supreme Court's GVR order was

such, we reinstate our earlier opinion except for section V. Section V of our earlier opinion was specifically directed to the question of enhanced damages, and it is that section that we now revisit.

I

Before *Halo*, under our court's two-part *Seagate* test, a patentee seeking enhanced damages for willful infringement was required to prove both an objective and a subjective prong. Under the objective prong, a patentee was required to "show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *Seagate*, 497 F.3d at 1371. "If this threshold objective standard [was] satisfied," the patentee was then required to prove subjective recklessness, i.e., to "demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer." *Id.* If the patentee proved both

---

limited to the second question. *WesternGeco*, 136 S. Ct. at 2486. "The general rule is that, when the Supreme Court remands in a civil case, the court of appeals should confine its ensuing inquiry to matters coming within the specified scope of the remand." *Kotler v. Am. Tobacco Co.*, 981 F.2d 7, 13 (1st Cir. 1992); *see also, e.g.*, *Escalera v. Coombe*, 852 F.2d 45, 47 (2d Cir. 1988) (upon GVR, "[a]ny reconsideration at this juncture of our earlier opinion must be limited to the scope of the Supreme Court's remand"); *Hermann v. Brownell*, 274 F.2d 842, 843 (9th Cir. 1960) (on remand, "the jurisdiction of this Court is rigidly limited to those points, and those points only, specifically consigned to our consideration by the Supreme Court").

prongs of willful infringement, the ultimate determination of whether to award enhanced damages under § 284 and the extent of any enhancement were left to the district court's discretion. *See id.* at 1368 ("[A] finding of willfulness does not require an award of enhanced damages; it merely permits it.").

The Supreme Court's decision in *Halo* overturned the *Seagate* test because it " 'is unduly rigid, and it impermissibly encumbers the statutory grant of discretion to the district courts.' " 136 S. Ct. at 1932 (quoting *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1755 (2014)). *Halo* held that district courts must have greater discretion in awarding enhanced damages in cases where the defendant's infringement was egregious, cases "typified by willful misconduct." *Id.* at 1934. "The *Seagate* test reflects, in many respects, a sound recognition that enhanced damages are generally appropriate under § 284 only in egregious cases." *Id.* at 1932.

But, the Court held, "[t]he principal problem with *Seagate*'s two-part test is that it requires a finding of objective recklessness in every case before district courts may award enhanced damages." *Id.* In particular, the Court rejected *Seagate*'s strict requirement that a patentee prove the objective unreasonableness of an infringer's defenses. *Id.*; *see WBIP, LLC v. Kohler Co.*, No. 15–1038, 829 F.3d 1317, 1341, 2016 WL 3902668, at *15 (Fed. Cir. July 19, 2016) (under *Halo*, "[p]roof of an objectively reasonable litigation-inspired defense to infringement is no longer a defense to willful

infringement"). At the same time, *Halo* did not disturb the substantive standard for the second prong of *Seagate*, subjective willfulness. Rather, *Halo* emphasized that subjective willfulness alone—i.e., proof that the defendant acted despite a risk of infringement that was " 'either known or so obvious that it should have been known to the accused infringer,' " *Halo*, 136 S. Ct. at 1930 (quoting *Seagate*, 497 F.3d at 1371)—can support an award of enhanced damages. "The subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless." *Id.* at 1933; *see also id.* at 1930 (describing the second prong of *Seagate* as an evaluation of the infringer's "subjective knowledge").

Additionally, the Court stressed throughout *Halo* that, if willfulness is established, the question of enhanced damages must be left to the district court's discretion. So too, *Halo* stressed that "[a]wards of enhanced damages ... are not to be meted out in a typical infringement case, but are instead designed as a 'punitive' or 'vindictive' sanction for egregious infringement behavior." *Id.* at 1932. "[N]one of this is to say that enhanced damages must follow a finding of egregious misconduct. As with any exercise of discretion, courts should continue to take into account the particular circumstances of each case in deciding whether to award damages, and in what amount. Section 284 permits district courts to exercise their discretion in a manner free from the inelastic constraints of the *Seagate* test." *Id.* at 1933–34. On remand from the Supreme Court, our court recently reconsidered

enhanced damages in the case of *Halo* itself and, in returning the issue to the district court, emphasized the district court's discretion. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, No. 13–1472, 831 F.3d 1369, 1381–1381–82, 2016 WL 4151239, at *10 (Fed. Cir. Aug. 5, 2016).

After *Halo*, the objective reasonableness of the accused infringer's positions can still be relevant for the district court to consider when exercising its discretion. *Halo* looked to *Octane Fitness* for the relevant standard. *Halo*, quoting *Octane Fitness*, held that there is " 'no precise rule or formula' " to determine whether enhanced damages should be awarded and that district courts should generally " 'exercise[ ] [their discretion] in light of the considerations' underlying the grant of that discretion." *Halo*, 136 S. Ct. at 1932 (quoting *Octane Fitness*, 134 S. Ct. at 1756). *Octane Fitness* in turn held that, in determining whether to award attorney's fees under § 285, a district court should "consider[ ] the totality of the circumstances." *Octane Fitness*, 134 S. Ct. at 1756. In that connection *Octane Fitness* relied on "the comparable context of the Copyright Act," *id.* noting that "[i]n *Fogerty v. Fantasy, Inc.*, for example, [the Court] explained that in determining whether to award fees under a similar provision in the Copyright Act, district courts could consider a 'nonexclusive' list of 'factors,' including 'frivolousness, motivation, *objective unreasonableness* (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence,' " *id.* at 1756 n.6 (emphasis added and internal citation omitted).

Thus, objective reasonableness is one of the relevant factors. In short, as the Supreme Court itself has said, district courts should exercise their discretion, "tak[ing] into account the particular circumstances of each case," and consider all relevant factors in determining whether to award enhanced damages. *Halo*, 136 S. Ct. at 1933–34.

II

Here, in granting ION's motion for JMOL of no willful infringement, the district court found that WesternGeco had not proved that ION's defenses to infringement were objectively unreasonable and consequently concluded that the first, objective prong of the *Seagate* test had not been met. *WesternGeco I*, 953 F. Supp. 2d at 751. As *Halo* has rejected the *Seagate* rule that a patentee's failure to establish the objective recklessness of the defendant's infringement precludes a finding of willfulness, we must vacate the district court's determination of no willful infringement by ION.

On remand the district court must consider two questions. The first of these is subjective willfulness. The jury here was instructed on the *Seagate* standard for subjective willfulness.[2] The jury

---

[2] The jury was instructed to determine whether ION acted recklessly and to "consider all facts," including "(1) Whether or not the infringer acted in accordance with the standards of commerce for its industry; (2) Whether or not there is a reasonable basis to believe that the infringer did not infringe or had a reasonable defense to infringement; (3) Whether or not the infringer made a good-faith effort to avoid infringing the patent such as attempting to design a product the infringer

jury found that WesternGeco had "prove[d] by clear and convincing evidence that ION actually knew, or it was so obvious that ION should have known, that its actions constituted infringement of a valid patent claim." J.A. 77. We note that ION's renewed motion for JMOL contended that the jury's verdict of subjective willfulness was unsupported by substantial evidence. ION argued that "no reasonable jury could conclude that the subjective-subjective-prong of the willfulness inquiry was established by clear and convincing evidence." *WesternGeco I*, No. 4:09-cv-01827, ECF No. 559, at 16 (ION's renewed motion for JMOL of no willful infringement of Sept. 28, 2012). On remand, the district court must review the sufficiency of this evidence as a predicate to any award of enhanced damages, mindful of *Halo*'s replacement of *Seagate*'s clear-and-convincing evidence standard with the "preponderance of the evidence standard." *Halo*, 136 S. Ct. at 1934.[3]

---

believed did not infringe; [and] (4) Whether or not the infringer tried to cover up its infringement." J.A. 11096.

[3] ION did not waive its challenge to the willfulness verdict based on the lack of subjective willfulness by failing to raise it on the first appeal. At the time of the first appeal it had raised the issue in a JMOL motion but the district court did not decide that issue (the district court having ruled that there was a lack of objective willfulness, a ground then sufficient to set aside the willfulness verdict). *Laitram Corp. v. NEC Corp.*, 115 F.3d 947 (Fed. Cir. 1997) is similar to this case. There the jury found both infringement and willfulness. *Id.* at 949. The district court entered JMOL of non-infringement and did not reach the issue of willfulness. *Id.* On the patentee's appeal we reversed the judgment of non-infringement and remanded. *Id.* On a second appeal by the accused infringer the question was whether the accused infringer had waived a challenge to willfulness (and

The second issue that the district court must consider on remand, if the jury's finding of willful infringement is sustained, is whether enhanced damages should be awarded. *Halo* emphasized that the question of enhanced damages under § 284 is one that must be left to the district court's discretion. The district court, on remand, should consider whether ION's infringement constituted an "egregious case[ ] of misconduct beyond typical infringement" meriting enhanced damages under § 284 and, if so, the appropriate extent of the enhancement. *Id.* at 1935.

---

enhanced damages) by failing to argue it as an alternative ground on the first appeal. *Id.* at 953–54. We held that there was no waiver because the jury's finding of willfulness was "neither [itself] on appeal nor relevant to the sole issue that was: infringement ... [and] properly considered moot—until the reversal of JMOL of non-infringement" on appeal. *Id.* at 954; *see also Eichorn v. AT&T Corp.*, 484 F.3d 644, 657–58 (3d Cir. 2007); *Indep. Park Apartments v. United States*, 449 F.3d 1235, 1240–41 (Fed. Cir. 2006); *Crocker v. Piedmont Aviation, Inc.*, 49 F.3d 735, 738–41 (D.C. Cir. 1995).

Thus, this case is distinguishable from our recent decision in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, where the accused infringer failed to raise the issue at the JMOL stage in district court or "challenge the propriety of the jury finding of subjective willfulness" on appeal. No. 13–1472, 831 F.3d at 1381, 2016 WL 4151239, at *10 (Fed. Cir. Aug. 5, 2016). We do not suggest that appellees in the future can avoid waiver by limiting discussion on the first appeal to just one aspect of the overall issue of enhanced damages since under the Supreme Court's decision in *Halo*, objective and subjective willfulness are no longer distinct issues.

CONCLUSION

For the foregoing reasons, we vacate the judgment of the district court of no willful infringement by ION and remand for further consideration of enhanced damages under § 284. As to other aspects of the district court's judgment, we hereby reinstate those aspects of our earlier judgment set forth in sections I–IV of our earlier opinion, which were not affected by the Supreme Court's order.

AFFIRMED-IN-PART, REVERSED-IN-PART, VACATED-IN-PART, AND REMANDED

COSTS

Costs to neither party.

WALLACH, Circuit Judge, *dissenting-in-part*.

I join the majority's opinion to the extent it applies the Supreme Court's decision in *Halo* on the issue of enhanced damages for willful infringement under 35 U.S.C. § 284 (2012). *See Halo Elecs. Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923 (2016). However, for the reasons articulated in my original dissent, *see WesternGeco L.L.C. v. ION Geophysical Corp. (WesternGeco II)*, 791 F.3d 1340, 1354–64 (Fed. Cir. 2015) (Wallach, J., dissenting-in-part), I dissent-in-part from today's panel opinion, which reinstates our earlier opinion "in all other respects." Maj. Op. at 1360.

The majority misunderstands the import of its prior holding, stating that my original dissent-in-part was from the panel's "holding that WesternGeco was not entitled to lost profits resulting from foreign uses of its patented invention." *Id.* at 1360. It is of course uncontroversial that patentees are not entitled to lost profits resulting from foreign uses of a patented invention. *See Brown v. Duchesne*, 60 U.S. (19 How.) 183, 195–96 (1856) ("[T]he use of [the invention] outside of the jurisdiction of the United States is not an infringement of his rights, and he has no claim to any compensation for the profit or advantage the party may derive from it.").

Patentees are entitled, however, to lost profits resulting from infringement under the laws of the United States, which is what the jury found below, *WesternGeco II*, 791 F.3d at 1342 ("The jury found infringement...."), what the district court found, *id.*

at 1343 ("[T]he [district] court granted summary judgment of infringement."), and what was affirmed by this court on appeal, *id.* at 1347–49 (noting, inter alia, "the correctness of the infringement finding").

The key issue left unaddressed in the now-now-reinstated opinion's analysis is: When a patent holder successfully demonstrates both patent infringement under United States law and foreign lost profits, what degree of connection must exist between the two before the foreign activity may be used to measure the plaintiff's damages?[1] Put

---

[1] According to the majority, "the issue of lost profits is not properly before [this court]," Maj. Op. at 1361 n.1, because "[t]he scope of the Supreme Court's [grant certiorari, vacate, and remand ('GVR')] order was limited to the second question [presented]," i.e., " '[w]hether the Court should hold this Petition for *Halo* and *Stryker* [*Corp. v. Zimmer, Inc.*, 136 S. Ct. 356 (2015) (mem.)],' " *Id.* (quoting Petition for Writ of Certiorari, *WesternGeco LLC v. ION Geophysical Corp.*, No. 2015-1085, 2016 WL 792196, at *1 (U.S. Feb. 26, 2016)). However, the majority reads the Supreme Court's GVR Order too narrowly. First, although the Supreme Court did not grant certiorari on the question of foreign lost profits in *Halo*, "a denial of certiorari has no precedential value." *Cty. of Sonoma v. Isbell*, 439 U.S. 996, 996 (1978). Second, the Order does not limit this court's review to a specific issue or question presented, as many GVR orders do. *See, e.g.*, *Herrmann v. Rogers*, 358 U.S. 332, 332 (1959) (limiting the appellate court's review on remand to a finite issue of Idaho property law). The GVR Order, in its entirety, provides:

> On petition for writ of certiorari to the United States Court of Appeals for the Federal Circuit. Petition for writ of certiorari granted. Judgment vacated, and case remanded to the United States Court of Appeals for the Federal Circuit for further consideration in light of *Halo*....
>
> Justice ALITO took no part in the consideration or decision of this petition.

another way, left unanswered is the question of where we must draw the line as to when patented products or services made, used, or sold abroad (or some combination of these) may be considered in calculating damages flowing from infringement under Title 35 of the United States Code. The issue is not one of infringement, where foreign use generally does not count,[2] but one of damages, where it may.

WesternGeco LLC v. ION Geophysical Corp., 136 S. Ct. 2486 (2016). The Supreme Court's only directive was that this court reconsider the prior opinion "in light of *Halo*," *id.* which overturns the two-part test for enhanced damages and the tripartite framework for appellate review in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc). *See generally Halo*, 136 S. Ct. 1923 (2016). The Supreme Court neither directly addressed the merits of this court's holding on the issue of damages associated with both infringement under United States law and use on the high seas, nor does it preclude their consideration. *See Halo Elecs., Inc. v. Pulse Elecs., Inc.*, Nos. 2013–1472, –1656, 831 F.3d 1369, 1373, 2016 WL 4151239, at *2 (Fed. Cir. Aug. 5, 2016) ("[T]he Supreme Court's review was limited to the issue of enhanced damages and left undisturbed the judgments on other issues...."); *see also* Maj. Op. at 1361 ("The Supreme Court's *Halo* decision was solely concerned with the question of enhanced damages for patent infringement under 35 U.S.C. § 284 and does not affect other aspects of our earlier opinion." (footnote omitted)).

[2] Indeed, even in the infringement context, "foreign activity ... can have an impact on the rights of a United States patent owner." *Lexmark Int'l, Inc. v. Impression Prods., Inc.*, 816 F.3d 721, 784 (Fed. Cir. 2016) I (en banc) (10-2 decision) (Dyk, J., dissenting).

Rather than grapple with this difficult question of proximity, the majority avoids it altogether, considering the foreign lost profits in this case to relate solely to foreign use and to be wholly disconnected from the infringement found by the jury. By reinstating our earlier decision, the majority repeats, out of context, the statement from *Power Integrations* that " 'the entirely extraterritorial production, use, or sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement.' " *WesternGeco II*, 791 F.3d at 1351 (quoting *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348, 1371–72 (Fed. Cir. 2013)).[3]

---

[3] As recognized elsewhere in *Power Integrations*, the central issue in foreign lost profits cases is not whether the use or sale is "entirely extraterritorial," but the nature and degree of connection between the underlying infringement and the (perhaps entirely extraterritorial) foreign activity that most proximately led to the lost profits. *See* 711 F.3d at 1371 (noting that plaintiffs cited no case law supporting the use of "sales consummated in foreign markets, *regardless of any connection* to infringing activity in the United States," when calculating damages (emphasis added)); *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 589 F. Supp. 2d 505, 511 (D. Del. 2008) (expressing concern that the "estimate [of the plaintiff's expert witness] of $30 million in damages was *not* related to parts that were manufactured, used, or sold in the United States by [the defendant]").

The statement in *Power Integrations*, however, addressed the patentee's argument that "having established one or more acts of direct infringement in the United States," the plaintiff should be able to "recover damages for [the defendant's] worldwide sales of the patented invention because those foreign sales were the direct, foreseeable result of [the defendant's] domestic infringement." 711 F.3d at 1371. If the statement is read too broadly, such that it prohibits any consideration of foreign activities when measuring damages, it conflicts with Supreme Court precedent holding that ordinary sales abroad can in some cases be used to measure damages resulting from domestic infringement. *See Goulds' Mfg. Co. v. Cowing*, 105 U.S. 253, 254–55 (1881); *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 650 (1915) (discussing *Goulds*'); *see also WesternGeco L.L.C. v. ION Geophysical Corp.*, 621 Fed. App'x 663, 664 (Fed. Cir. 2015) (9-3 decision denying the petition for rehearing en banc) (Wallach, J., dissenting); *WesternGeco II*, 791 F.3d at 1354–64 (Wallach, J., dissenting-in-part). Such a conflict should serve as a red flag, indicating that the approach taken by the panel may belong to the class of " 'unduly rigid' " rules the Supreme Court has repeatedly cautioned against, including in its decision that led to the present remand. *Halo*, 136 S. Ct. at 1932 (quoting *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1755 (2014)).

Not only is the approach taken by the majority unduly rigid, it is in substantial tension with Supreme Court guidance on the specific issue of (1) infringement under United States law followed by (2) use on the high seas. *Duchesne*—the very case cited

by the majority for the proposition that lost profits based on foreign use are not compensable—compensable—illuminates at least one circumstance under which such foreign use *is* "compens[able]": Where the patented invention is "manufactured" or "sold" in the United States, the defendant is "justly answerable for" the resulting "advantage which [he] derived from the *use* of th[e] improvement ... *on the high seas*." 60 U.S. (19 How.) at 196 (emphases added); *see also WesternGeco II*, 791 F.3d at 1362 (Wallach, J., dissenting-in-part) (discussing *Duchesne*). The compensation in such a case is not for the foreign use itself, but for the damages caused when the defendant "diminished the value of [the plaintiff's] property" by "compet [ing] with the plaintiff," in the United States, "where the plaintiff *was* entitled to ... exclusive use." *Duchesne*, 60 U.S. (19 How.) at 196 (emphasis added).

In reinstating its earlier decision, the majority expresses no concern for the consequences that may result from that decision. Creative lawyers, for example, may seek to insulate their clients from infringement liability by structuring market transactions so as to distance the infringer from the foreign activities, seeking to mirror the present case in which ION sells the device in question "to its customers, who perform surveys" on the high seas "on behalf of oil companies." *WesternGeco II*, 791 F.3d at 1343. When done for liability-avoidance reasons, such a change in form can increase costs without altering the underlying economic substance of the transaction.

Such efforts—and perhaps other unforeseen

industry responses—would not only be wasteful, but would also result in unfairness to the patent owner, whose loss from the infringement remains the same regardless of the number of entities involved or the complexity of the underlying transactions. So long as there is a sufficient connection between the infringement and the foreign activity, plaintiffs who successfully establish infringement under United States law should be able to rely on foreign activities to measure those damages adequate to "return the patent owner to the financial position he would have occupied but for the infringement." *Carborundum Co. v. Molten Metal Equip. Innovations, Inc.*, 72 F.3d 872, 881 (Fed. Cir. 1995).

Formulating a proper proximity standard—standard—i.e., a standard that can be used to determine the sufficiency of the connection between infringement under United States law and foreign lost profits—is no easy task. There are some guideposts, however. For example, our case law has established that a party will not necessarily be able to recover damages equal to lost foreign sales simply because those lost sales would not have occurred "but for" the domestic infringement. *Power Integrations*, 711 F.3d at 1370 (finding the connection insufficient despite the argument of Power Integrations that it was entitled to damages based upon lost foreign sales it "would have made *but for* Fairchild's domestic infringement" (emphasis added)). It has established that "[w]here a physical product is being employed to measure damages for the infringing use of patented methods," the patentee may recover "when and only when" one of the actions specified in 35 U.S.C. § 271(a) (e.g., selling) "for that unit" takes

place in the United States, "even if others of the listed activities for that unit (*e.g.*, making, using) take place abroad." *Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*, 807 F.3d 1283, 1306 (Fed. Cir. 2015).

A unifying theme from these cases and others cited in my original dissent is that the appropriate measure of damages must bear some relation to the extent of the infringement in the United States. Thus, on the one hand, where the volume of non-infringing sales is independent of the extent of United States infringement, those sales should not be used as a measure of damages flowing from the domestic infringement. For example, where a product is designed in the United States by an "infringing use of [the] patented method[ ]," *id.* and units of the product are then "manufactured, sold, and used abroad," the number of units produced abroad bears little or no relationship to the extent of the infringement in the United States, *id.* at 1305 (internal quotation marks and citation omitted). This is because once a product is designed, an unlimited number of non-infringing units may be produced from that design.

At the other extreme, there may be a one-to-one-to-one relationship, or nearly so, between the infringement in the United States and the non-non-infringing foreign activity. In this case, each non-infringing unit or activity bearing such a one-to-one-to-one relationship with the infringing unit or activity is relevant to the damages calculation. *See, e.g., R.R. Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1519 (Fed. Cir. 1984) (Where a certain number

of infringing "carsets" are manufactured in the United States and that same number is sold in a foreign country, each non-infringing foreign sale is relevant.); *cf. State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1575 (Fed. Cir. 1989) (Where a patented method is used to produce each non-non-infringing water heater, the number of water heaters sold is relevant to the damages calculation.).

The present case appears to lie somewhere in between these extremes. As described by the majority, the patent-practicing devices sold by ION are combined (and then used) in non-infringing streamer systems on the high seas, in a manner that would infringe if the combination occurred within the United States. *See WesternGeco II*, 791 F.3d at 1348. Because each streamer system contains some number of devices, *id.* at 1343, the volume of infringing activity in the United States bears some relationship to the number of streamer systems used on the high seas, and the number of streamer systems in turn bears some relationship to the volume of lost sales. At the same time, however, because a given streamer system could presumably be used more than once, the volume of infringing activity in the United States may not bear a one-to-one relationship with the volume of lost sales. As with damages questions generally, complex factual issues such as these may exist regarding the relationship between the infringing acts and the units or activities used to measure the patentee's resulting losses.

The importance of such complex factual issues to the damages calculation explains why discretion is

afforded to district courts and juries in arriving at an appropriate damages figure. *See AstraZeneca AB v. Apotex Corp.*, 782 F.3d 1324, 1333 (Fed. Cir. 2015) ("The amount of damages awarded to a patentee ... is ... reviewed for *clear error*, while the methodology underlying the court's damages computation is reviewed for *abuse of discretion*." (emphases added)); *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1310 (Fed. Cir. 2009) ("We review the jury's determination of the amount of damages, an issue of fact, for *substantial evidence*." (emphasis added)). An unduly rigid rule barring the district court from considering foreign lost profits even when those lost profits bear a sufficient relationship to domestic infringement improperly cabins this discretion, encourages market inefficiency, and threatens to deprive plaintiffs of deserved compensation in appropriate cases. Accordingly, I again respectfully dissent-in-part.

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

WESTERNGECO L.L.C.,
Plaintiff–Cross–Appellant
v.
ION GEOPHYSICAL CORPORATION,
Defendant–Appellant.

Nos. 2013–1527, 2014–1121, 2014–1526, 2014–1528

July 2, 2015.

Before DYK, WALLACH, and HUGHES, *Circuit Judges*.

Opinion

Opinion for the court filed by *Circuit Judge* DYK. Dissenting-in-part opinion filed by *Circuit Judge* WALLACH.

DYK, *Circuit Judge*.

WesternGeco L.L.C. ("WesternGeco") filed suit against ION Geophysical Corp. ("ION") for infringement of, *inter alia*, U.S. Patent Nos. 6,691,038 ("the '038 patent"), 7,080,607 ("the '607 patent"), 7,162,967 ("the '967 patent"), and 7,293,520 ("the '520 patent"). The jury found infringement and no invalidity with respect to all asserted claims for each of the four patents, and awarded $93,400,000 in lost profits and $12,500,000 in reasonable royalties.

ION appeals, arguing that WesternGeco is not the owner of the '607, '967, and '520 patents and therefore lacks standing to assert them; that the district court applied an incorrect standard in granting summary judgment as to claim 18 of the '520 patent under 35 U.S.C. § 271(f)(1) and that this ruling infected the trial with respect to liability for all other claims; and that lost profits were impermissibly awarded for conduct abroad.

WesternGeco conditionally cross-appeals, arguing that, if we find in favor of ION with respect to any of its appealed issues, we should set aside the damages award because the district court erred in preventing WesternGeco's damages expert from testifying on the issue of a reasonable royalty. WesternGeco also challenges the district court's refusal to award enhanced damages for willful infringement.

We affirm in all respects, except that we reverse the district court's award of lost profits resulting from conduct occurring abroad.

BACKGROUND

WesternGeco asserts that it owns the four patents at issue: the '038 patent, the '607 patent, the '967 patent, and the '520 patent. The asserted claims of all four patents are system claims relating to technologies used to search for oil and gas beneath the ocean floor. To search for oil and gas, ships tow a series of long streamers. Each streamer is equipped with a number of sensors. An airgun bounces sound

waves off of the ocean floor. The sensors pick up the returning sound waves and, in combination with each other, create a map of the subsurface geology. This generated map can aid oil companies in identifying drilling locations for oil or gas.

The streamers can be miles in length, and vessel movements, weather, and other conditions can cause the streamers to tangle or drift apart. This, in turn, can cause the sensors on the streamers to generate imperfect or distorted maps. The patents here relate to two improvements to that technology: first, controlling the streamers and sensors in relation to each other through the use of winged positioning devices; second, using the sensors to generate four-dimensional maps—that is, maps in which it is possible to see changes in the seabed over time.

Both parties are involved in this industry. WesternGeco manufactures its commercial embodiment of the patented technologies, the Q–Marine, and performs surveys on behalf of oil companies. ION manufactures its allegedly patent-practicing device, the DigiFIN, and sells that device to its customers, who perform surveys on behalf of oil companies.

On June 12, 2009, WesternGeco filed suit against ION, accusing ION of willfully infringing various claims of four patents. WesternGeco's theory of infringement was based on, *inter alia*, 35 U.S.C. § 271(f)(1) and § 271(f)(2). Broadly speaking, (f)(1) prohibits supplying a substantial portion of the

components of a patented system in a manner that actively induces their combination abroad, and (f)(2) prohibits supplying components that are especially adapted to work in a patented invention and intending that the components be combined abroad in a manner that would infringe if combined domestically. *See* 35 U.S.C. § 271(f).

On June 29, 2012, the court granted summary judgment of infringement in favor of WesternGeco for claim 18 of the '520 patent under 35 U.S.C. § 271(f)(1). In so ruling, the court interpreted § 271(f)(1) as requiring that the "alleged infringer (1) actively induce the combination of the components in question; and (2) that the combination of those components would infringe the patent if such combination occurred within the United States." J.A. 52. Section 271(f)(2), the district court concluded, required a heightened standard: "that the defendant (1) intended the combination of components; (2) knew that the combination he intended was patented; and (3) knew that the combination he intended would be infringing if it occurred in the United States." J.A. 55. The court determined that WesternGeco proved that ION intended that the components be combined and therefore infringed under § 271(f)(1) with respect to claim 18, but concluded that, with respect to claim 18 under § 271(f)(2), there was a genuine issue of material fact as to whether the "Defendants *knew* that the combination was infringing." J.A. 56.

Trial was held in July and August of 2012. On August 16, 2012, the jury rendered its verdict,

finding that ION infringed claims 19 and 23 of the '520 patent, claim 15 of the '967 patent, claim 15 of the '607 patent, and claim 14 of the '038 patent under §§ 271(f)(1) and (f)(2). The jury also found that ION infringed claim 18 of the '520 patent under § 271(f)(2) (infringement under (f)(1) as to claim 18 having already been decided on summary judgment). Finally, the jury found that the infringement was willful (applying the so-called "subjective" prong of *In re Seagate Technology, LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc)). The jury awarded $93,400,000 in lost profits and $12,500,000 in reasonable royalties.

ION filed motions for judgment as a matter of law or for a new trial. ION also filed a motion to dismiss, for the first time alleging that WesternGeco did not have standing to assert the '607 patent, the '967 patent, and the '520 patent because WesternGeco did not own the patents. WesternGeco filed, *inter alia*, a motion for enhanced damages under 35 U.S.C. § 284.

On June 19, 2013, the district court denied ION's JMOLs and motion to dismiss and WesternGeco's motion for enhanced damages, finding that ION's positions were reasonable and not objectively baseless.

ION appealed. WesternGeco conditionally cross-appealed. We have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

DISCUSSION

I

We first address ION's contention that WesternGeco does not own the '607 patent, the '967 patent, and the '520 patent, and therefore lacked standing to assert them. The question is whether WesternGeco owned the patents when the suit was filed in 2009. It is uncontroverted that a sole owner of a patent has standing to assert it and that an entity that does not own the patent (or is not the exclusive licensee) does not have standing to sue. *See Rite–Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1551–52 (Fed. Cir. 1995) (en banc).

Although standing is reviewed de novo, we review factual determinations relating to standing for clear error. *See Enovsys LLC v. Nextel Commc'ns, Inc.*, 614 F.3d 1333, 1340–41 (Fed. Cir. 2010). The district court reviewed the parties' arguments with respect to the chain-of-title and concluded that "WesternGeco has presented sufficient evidence to prove its ownership of the patents" and that "WesternGeco was assigned the rights." J.A. 7. We have reviewed the record relating to the chain of title between the original inventors and WesternGeco. We conclude that the district court's findings are not clearly erroneous.

The three patents each list two inventors: Oyvind Hillesund and Simon Bittleston. In 1993, Bittleston started working for a subsidiary of Schlumberger Ltd., and Hillesund started working for a subsidiary of Schlumberger Ltd. the following

year. Schlumberger Ltd. is one of the world's largest oil and gas companies, incorporated in Curacao and with offices throughout the world. Although the precise Schlumberger corporate structure existing in the early 1990s is not clear from the record, and it is not clear precisely for which subsidiaries Bittleston and Hillesund worked at the time of their invention, ION admits that Hillesund and Bittleston worked for so-called "Geco" subsidiaries of Schlumberger Ltd. *See* Appellant's Br. 10 (characterizing Hillesund and Bittleston as having "originally went to work for Geco in" 1994 and 1993, respectively).

Both inventors testified that they transferred their rights to the inventions they developed to their employers pursuant to their employment contracts. Bittleston testified: "[W]hen [Hillesund and I] joined the company [one of the Geco companies], we signed something saying that any inventions we made were going to be owned by the company, not by us, so they're the owners." J.A. 1504. Hillesund's testimony is similar. When asked: "Mr. Hillesund, as an employee of Geco and later WesternGeco, did you assign your rights of the intellectual property to the company?", Hillesund responded: "Yes. Part of the—my contract was that intellectual property—there was also something in the contract that I was to be given reasonable coverage of—in the form of a bonus, all in accordance to the significance of the patent." J.A. 12805.

If, in fact, Geco subsidiaries of Schlumberger, Ltd. acquired those rights in the early 1990s, they were transferred to Schlumberger Technology

Corporation ("STC") pursuant to a 1998 agreement. In 1998, four Schlumberger companies, Schlumberger Holdings Limited, STC, Schlumberger Canada Limited, and Services Petroliers Schlumberger S.A., entered into a cost-sharing agreement. As a part of that agreement, the parties assigned intellectual property rights to each other to consolidate those rights on a geographical basis:

> [O]wnership of the Patent Rights, Proprietary Technical Information and Copyrights which are subject to this Agreement shall be vested in the Participants in their Respective Areas....

J.A. 12828–29. STC's "respective area" was the United States. J.A. 12820. The agreement defined "Patent Rights" to include "any and all patents and patent applications, certificates of invention and the like, throughout the world, and interests therein, based upon inventions relating to seismic oil field services or equipment which are obtained by or for the Geco Prakla companies." J.A. 12824.[1] Thus, there

---

[1] "Geco Prakla" was defined to mean:

> SHL; STC and specifically its Geco Prakla engineering, manufacturing and operating divisions and research centers; SCL and specifically its Geco Prakla seismic operating division; SPS; and any other seismic service and/or data processing oil field corporation, firm, partnership or other entity ("entities") which may, directly or indirectly, be wholly or majority owned by Schlumberger Limited

is substantial evidence to conclude that the agreement here assigned the intellectual property in the Geco companies (originally assigned from the inventors) to STC in 1998.

The next event in the chain-of-title occurred in 2000, when Schlumberger and Baker–Hughes formed a joint venture, WesternGeco, to which STC assigned its intellectual property rights "primarily related to the Seismic Business in the U.S."[2] J.A.

> (SL); and successors of such entities so long as each remains a wholly or majority-owned subsidiary of SL or a successor of SL.

J.A. 12820.

[2] The agreement defined "Transferred IP" to refer to, *inter alia*, "Schlumberger Transferred IP," which is in turn defined to mean "Intellectual Property that (i) is owned by Schlumberger or its Affiliates or to which Schlumberger or its Affiliates otherwise have rights, (ii) is used or held for use primarily in connection with or otherwise primarily related to the Schlumberger Seismic Business, and (iii) exists as of the Closing Date, including the Schlumberger Proprietary Rights that are identified by Schedule 4.18(a) to the Schlumberger Disclosure Letter." J.A. 12711; 12713. The contract defined "Intellectual Property" to mean:

> *patents, patent applications (filed, unfiled or being prepared),* records of invention, invention disclosures, trademarks (registered or unregistered), trademark applications (filed, unfiled or being prepared), trade names, copyrights (registered or unregistered), copyright applications (filed, un-filed or being prepared), service marks (registered or unregistered), service mark applications (filed, unfiled or being prepared), database rights (registered or unregistered), all together with the goodwill associated with such marks or

12780. And there is substantial evidence to conclude that the intellectual property at issue in this case is "primarily related to the Seismic Business" because a British application and Patent Cooperation Treaty ("PCT") application, from which the three patents at issue derive, were expressly included in a list of IP used primarily for the Seismic Business.[3] As a result of this series of transfers, it appears that the inventors' patent rights were transferred first to the Geco companies, then in 1998 to STC, and then in 2000 to WesternGeco, the plaintiff in this case.

However, ION argues that there is a defect in this chain of title. It contends that the inventors,

---

> names, trade secrets, shop and royalty rights, technology, *inventions,* know-how, processes and confidential and proprietary information, *including any being developed* (including but not limited to designs, manufacturing data, design data, test data, operational data, and formulae), whether or not recorded in tangible form through drawings, software, reports, manuals or other tangible expressions, whether or not subject to statutory registration, whether foreign or domestic, and all rights to any of the foregoing.

J.A. 12706 (emphases added).

[3] The three patents at issue here are all continuations of U.S. Patent No. 6,932,017, which was itself based on the PCT application expressly transferred in the 2000 merger. The '017 patent application was initiated under 35 U.S.C. § 371, which provides for the national filing of PCT applications. The three patents at issue could not have been listed in the 2000 agreement because they had not yet been filed.

while perhaps obligated to transfer rights in the invention to their employers (Geco subsidiaries) under their employment agreements, failed to testify that such a transfer in fact occurred. It is well-established that employment contracts do not necessarily automatically assign patent rights to the employer. *See Abraxis Bioscience, Inc. v. Navinta LLC*, 625 F.3d 1359, 1364 (Fed. Cir. 2010). "[C]ontracts that obligate the owner to grant rights in the future do not vest legal title to the patents in the assignee." *Id.* at 1364–65. In such circumstances, the employee must still formally assign the rights to the patent to the employer in order to convert the employer's contractual right to the technology into a vested ownership interest.

The simple answer is that even if the inventors still owned the rights to the invention after the 2000 merger agreement, the inventors transferred their interests in the pending patent applications to STC in 2001. The 2001 assignment forms executed by each of the two inventors provided that "[STC] is desirous of acquiring or confirming its ownership of the entire right, title and interest in and to [the invention]" and confirmed that the inventors "have sold, assigned, transferred and conveyed, and by this assignment, do sell, assign, transfer and convey, unto Assignee, its successors and assigns, the entire right, title and interest throughout the United States ... in and to my invention...." J.A. 12195–98. These 2001 assignments were filed as to U.S. Patent Application No. 09/787,723 ("App. No. '723") and PCTIB99/01590. As noted above, the three patents for which ION

challenges ownership were all continuations of the patent resulting from App. No. '723. ION admits that STC was assigned the patents in 2001, and argues that STC is the patent owner.

No further transfer instrument from STC to WesternGeco was required to vest these patents in WesternGeco after the rights were transferred to STC in 2001. The transfer from STC to WesternGeco occurred automatically under the previously executed 2000 agreement. It is well-established that when an agreement provides for the transfer of an interest in a patent and the transferring party later receives formal title, the formal title is automatically transferred by operation of the prior agreement to the transferee party. *See Abraxis*, 625 F.3d at 1364 ("If [a] 'contract expressly conveys rights in future inventions, no further act is required once an invention comes into being, and the transfer of title occurs by operation of law.'"); *SiRF Tech., Inc. v. Int'l Trade Comm'n*, 601 F.3d 1319, 1326 (Fed. Cir. 2010) (same).[4]

Here, the 2000 merger agreement was a present assignment of STC's rights to the intellectual property at issue. The merger agreement provided:

---

[4] Indeed, 35 U.S.C. §§ 118 and 261 contemplate assignment of a right to receive a patent. Section 261 provides in part: "Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing." Similarly, § 118 provides in part: "A person to whom the inventor has assigned or is under an obligation to assign the invention may make an application for patent."

"STC assigns to [WesternGeco] in accordance with Article 2 all right, title, and interest in and to the Schlumberger Transferred IP primarily related to the Seismic Business in the U.S." J.A. 12780. Intellectual Property was defined to include: "patents, patent applications (filed, unfiled or being prepared)," and "inventions," "including any being developed." J.A. 12706. The 2000 assignment here included the rights to future patents resulting from the existence of a previous invention.

There is thus substantial evidence to conclude that WesternGeco owns the patents at issue and has standing to sue, regardless of whether the inventors transferred their rights to the inventions to the Geco companies by operation of their employment agreements or whether they merely agreed to a future transfer in the early 1990s and then formally transferred their rights to STC in 2001. The district court did not err in ruling that WesternGeco was the owner of the patents-in-suit and had standing to sue.

II

We next turn to ION's challenges to the determination of infringement. As stated earlier, the district court granted summary judgment of infringement on claim 18 of the '520 patent under § 271(f)(1). The jury determined that ION infringed the other asserted claims under § 271(f)(1), and the jury separately determined that ION infringed all of the asserted claims (including claim 18) under § 271(f)(2) as well.

Section 271(f)(1) provides:

> Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, *in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe* the patent if such combination occurred within the United States, shall be liable as an infringer.

35 U.S.C. § 271(f)(1) (emphasis added). Section 271(f)(2) provides:

> Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, *knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that*

> *would infringe* the patent if such combination occurred within the United States, shall be liable as an infringer.

35 U.S.C. § 271(f)(2) (emphasis added).

ION contends that three errors by the district court require reversal. First, ION contends that the district court misconstrued (f)(1)'s "actively induce" intent requirement in granting summary judgment for claim 18 of the '520 patent and in instructing the jury as to (f)(1) infringement for the other asserted claims. The parties dispute the meaning of the following language of (f)(1): "actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States." 35 U.S.C. § 271(f)(1). The district court held that this requirement was satisfied if the alleged infringer "actively induce[d]" the combination abroad, irrespective of whether the infringer had knowledge that there would be infringement if combined domestically. J.A. 52. ION disagrees with that reading, arguing that the language of (f)(1) requires that ION knew the intended combination would be infringing if done domestically.

We need not reach the question whether the district court applied the correct standard under § 271(f)(1). The verdict was clear that the jury found liability under § 271(f)(2) for all asserted claims. The district court expressly instructed the jury to "determine infringement ... on a claim-by-claim

basis" for both § 271(f)(1) and (f)(2) and instructed them to determine infringement as to claim 18 of the '520 patent under § 271(f)(2). Because there was no contention raised before the district court that the (f)(2) instruction as to the standard of intent was erroneous,[5] and, as discussed below, there were no other errors with respect to the (f)(2) instruction, the correctness of the infringement finding with respect to (f)(2) forms an adequate basis for liability.

ION's second challenge is to the lack of limiting instructions to the jury with respect to (f)(2). ION proposed that the jury be instructed:

> I have previously determined that ION ... infringe[s] Claim 18 of the '520 Patent by supplying DigiFIN and the Lateral Controller from the United States intending the two components be combined into a system that infringes Claim 18 utilizing the streamer separation mode. You must accept my finding on infringement as it relates to Claim 18 of the '520 Patent under § 271(f)(1). *You should not consider this finding in deciding the question*

[5] On appeal, ION argues that the (f)(2) jury instruction was incorrect in light of *Commil USA, LLC v. Cisco Sys., Inc.*, 720 F.3d 1361 (Fed. Cir. 2013), which was decided six days after the district court's JMOL order. This argument is mooted by the Supreme Court's recent decision in *Commil USA, LLC v. Cisco Systems, Inc.*, 135 S. Ct. 1920 (2015).

> *of infringement as to any other claim or when deciding infringement under § 271(f)(2).*

J.A. 10913 (emphasis added). The district court did not err in rejecting this proposed instruction. The district court held that, for both (f)(1) and (f)(2), WesternGeco was required to prove that ION intended that the components be combined abroad (quite apart from other intent requirements). In granting summary judgment on claim 18, the district court resolved this issue in favor of WesternGeco. The jury was entitled to be advised that this issue—applicable to both (f)(1) and (f)(2)—had been resolved against ION. Because ION's proposed instruction would have precluded that, it was overly broad, and the district court did not err in refusing to give the instruction. *See Bettcher Indus., Inc. v. Bunzl USA, Inc.*, 661 F.3d 629, 638–39 (Fed. Cir. 2011); *Biodex Corp. v. Loredan Biomedical, Inc.*, 946 F.2d 850, 862 (Fed. Cir. 1991) ("In order to prevail on the jury instruction issue in this case, [the appellant] must demonstrate both that the jury instructions actually given were fatally flawed and that the requested instruction was proper and could have corrected the flaw.").[6]

---

[6] ION's denied motions in limine were equally overbroad. For example, ION requested that WesternGeco be precluded from making "[a]ny mention of or reference to this Court's Orders denying or granting motions for summary judgment." J.A. 10653; *see also* J.A. 10793 (refusing to give the instruction).

Finally, ION complains that WesternGeco during trial made improper references to the (f)(1) summary judgment order when arguing that the jury should find (f)(2) infringement. ION did not object to the references when they were made, and ION fails to demonstrate that they constituted plain error requiring reversal in the absence of an objection. *See Minks v. Polaris Indus., Inc.*, 546 F.3d 1364, 1379–80 (Fed. Cir. 2008) (plain error reversible only where substantial rights are affected).

III

Although ION does not challenge the reasonable royalty award, ION challenges the award of lost profits resulting from lost contracts for services to be performed abroad. We hold that lost profits cannot be awarded for damages resulting from these lost contracts.

WesternGeco makes the Q–Marine domestically and performs the surveys abroad on behalf of its customers—oil companies looking to extract oil from the sea floor. ION makes the DigiFINs domestically and then ships them overseas to its customers, who, in competition with WesternGeco, perform surveys abroad on behalf of oil companies. WesternGeco identified ten surveys for which it believes that, but for ION's supplying of DigiFINs to ION's customers, WesternGeco would have been awarded the contract. These ten surveys allegedly would have generated over $90,000,000 in profit. According to WesternGeco, ION's customers would not have been able to win the contracts if they

did not have access to the DigiFINs. Thus, according to WesternGeco, but for ION's sales to its customers, WesternGeco would have earned over $90 million in profit from the ten lucrative services contracts performed abroad.

ION argues that WesternGeco cannot receive lost profits resulting from the failure to win these contracts. The service contracts were all to be performed on the high seas, outside the jurisdictional reach of U.S. patent law. There is also no contention that the service contracts were entered into in the United States.

The presumption against extraterritoriality is well-established and undisputed. As the Supreme Court ruled in *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007), "[t]he presumption that United States law governs domestically but does not rule the world applies with particular force in patent law. The traditional understanding that our patent law operates only domestically and does not extend to foreign activities is embedded in the Patent Act itself, which provides that a patent confers exclusive rights in an invention within the United States." *Id.* at 454–55 (citation, alterations, and internal quotation marks omitted). *See also Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972) ("Our patent system makes no claim to extraterritorial effect; 'these acts of Congress do not, and were not intended to, operate beyond the limits of the United States.' " (quoting *Brown v. Duchesne*, 60 U.S. 183, 195 (1856))); *Equal Emp't Opportunity Comm'n v. Arabian Am. Oil Co.*, 499 U.S. 244, 248

(1991) ("It is a longstanding principle of American law 'that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.'" (quoting *Foley Bros. v. Filardo*, 336 U.S. 281, 285 (1949))).

Here, the enactment of § 271(f) expanded the territorial scope of the patent laws to treat the export of components of patented systems abroad (with the requisite intent) just like the export of the finished systems abroad. The genesis of Congressional action lay in the Supreme Court's decision in *Deepsouth*. In *Deepsouth*, the Supreme Court determined that a domestic manufacturer who manufactured components of an infringing product and then exported those components abroad without first combining them was not an infringer under § 271(a). 406 U.S. at 527–29. In response, Congress enacted § 271(f), which overruled *Deepsouth* to impose liability on domestic entities shipping components abroad (with the requisite intent), just as if they had manufactured the infringing product itself in the United States. *See Microsoft*, 550 U.S. at 442–45 (explaining that Congress enacted § 271(f) to hold manufacturers of exported components liable as infringers). There is no indication that in doing so, Congress intended to extend the United States patent law to cover uses abroad of the articles created from the exported components.

It is clear that under § 271(a) the export of a finished product cannot create liability for extraterritorial use of that product. The leading case

on lost profits for foreign conduct is *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013). There, the patentee, a chip supplier, lost contracts to supply a prospective customer with computer chips in the United States and abroad because the accused infringer became a competitor for such contracts as a result of the U.S. infringing sales. If the accused infringer had been precluded from U.S. infringement, the patentee alleged that the accused infringer could not have competed for the contracts which necessarily involved supplying chips both in the United States and abroad. The patentee argued that it should recover world-wide lost profits.

We rejected that argument: "[Our patent laws] do not thereby provide compensation for a defendant's foreign exploitation of a patented invention, which is not infringement at all." *Power Integrations*, 711 F.3d at 1371. Rather, "we find neither compelling facts nor a reasonable justification for finding that [the patentee] is entitled to 'full compensation' in the form of damages based on loss of sales in foreign markets which it claims were a foreseeable result of infringing conduct in the United States." *Id.* at 1372. "[T]he entirely extraterritorial production, use, or sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement." *Id.* at 1371–72.

Under *Power Integrations*, WesternGeco cannot recover lost profits resulting from its failure to win foreign service contracts, the failure of which allegedly resulted from ION's supplying infringing products to WesternGeco's competitors. *See also Duchesne*, 60 U.S. at 195–96 ("And the use of [the patented technology] outside of the jurisdiction of the United States is not an infringement of [the patentee's] rights, and [the patentee] has no claim to any compensation for the profit or advantage the party may derive from it."); *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 769 F.3d 1371, 1380 (Fed. Cir. 2014) ("Following Halo's logic, a foreign sale of goods covered by a U.S. patent that harms the business interest of a U.S. patent holder would incur infringement liability under § 271(a). Such an extension of the geographical scope of § 271(a) in effect would confer a worldwide exclusive right to a U.S. patent holder, which is contrary to the statute and case law.").

WesternGeco argues that *Power Integrations* applies to infringement under § 271(a)-(b), not infringement under § 271(f). WesternGeco's argument misunderstands the role of § 271(f) in our patent law. Section 271(f) does not eliminate the presumption against extraterritoriality. Instead, it creates a limited exception. *Microsoft*, 550 U.S. at 442, 455–56. As we have discussed, by its terms, § 271(f) operates to attach liability to domestic entities who export components they know and intend to be combined in a would-be infringing manner abroad. But the liability attaches in the United States. It is the act of exporting the components from the United

States which creates the liability. A construction that would allow recovery of foreign profits would make § 271(f), relating to components, broader than § 271(a), which covers finished products. In fact, § 271(f) was designed to put domestic entities who export components to be assembled into a final product in a similar position to domestic manufacturers who sell the final product domestically or export the final product. Just as the United States seller or exporter of a final product cannot be liable for use abroad, so too the United States exporter of the component parts cannot be liable for use of the infringing article abroad.

Of course, the fact that WesternGeco is not entitled under United States patent law to lost profits from the foreign uses of its patented invention does not mean that it is entitled to no compensation. Patentees are still entitled to a reasonable royalty, and WesternGeco received such a royalty here.[7]

The dissent raises three principal arguments in favor of allowing WesternGeco to recover lost profits resulting from failing to win the contracts to perform the seismic surveys on the high seas.

---

[7] The extent to which these royalties may be affected by lost profits suffered abroad is an issue not presented here. *See Union Carbide Chems. & Plastics Tech. Corp. v. Shell Oil Co.*, 425 F.3d 1366, 1378 (Fed. Cir. 2005), *overruled on other grounds, Cardiac Pacemakers, Inc. v. St. Jude Med., Inc.*, 576 F.3d 1348, 1365 (Fed. Cir. 2009) (en banc); *see also Warsaw Orthopedic, Inc. v. NuVasive, Inc.*, 778 F.3d 1365, 1378 n.7 (Fed. Cir. 2015).

First, the dissent identifies Supreme Court cases it believes approved awards of lost profits for foreign sales, citing *Goulds' Manufacturing Co. v. Cowing*, 105 U.S. 253, 26 L.Ed. 987 (1881), *Dowagiac Manufacturing, Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641 (1915), and *Duchesne*, 60 U.S. 183. None of these cases is remotely similar to this one. To be sure, they suggest that profits for foreign sales of the patented items themselves are recoverable when the items in question were manufactured in the United States and sold to foreign buyers by the U.S. manufacturer. *See Goulds' Mfg.*, 105 U.S. at 254; *Dowagiac Mfg.*, 235 U.S. at 642–43; *Duchesne*, 60 U.S. at 196. There is no such claim here. Rather, the claim is for lost profits from the use abroad of the items in question. The dissent's own authority, *Dowagiac Manufacturing*, makes clear that absent sales to foreign buyers by the U.S. manufacturer, there can be no recovery of lost profits for foreign sales:

> Some of the drills, about 261, sold by the defendants, were sold in Canada, no part of the transaction occurring within the United States, and as to them there could be no recovery of either profits or damages. The right conferred by a patentee under our law is confined to the United States and its Territories and infringement of this right cannot be predicated of acts wholly done in a foreign country.

235 U.S. at 650.

Second, the dissent argues that the surveys should be recoverable as "convoyed sales" of the domestically manufactured components of the infringing DigiFINs. But, WesternGeco did not raise this argument before the district court or this court. And, the dissent points to no case extending the convoyed sales doctrine to cover sales of related products or services abroad. *See, e.g., State Indus., Inc. v. Mor–Flo Indus., Inc.*, 883 F.2d 1573, 1575 (Fed. Cir. 1989) (making no mention of foreign sales or uses); *Minco, Inc. v. Combustion Eng'g, Inc.*, 95 F.3d 1109, 1118 (Fed. Cir. 1996) (same). We see no basis for extending § 271(f)(2) to cover lost profits resulting from the use abroad of U.S. manufactured goods or components thereof in light of the "particular force" of the presumption against extraterritoriality in our patent laws. *See Microsoft Corp.*, 550 U.S. at 454–55. Certainly in drafting 271(f)(2) Congress did not provide for liability in convoyed-sales situations.

Third, the dissent expresses concern that our ruling today might effectively prevent WesternGeco from recovering lost profits at all, as the surveys were conducted on the high seas and were outside of the territorial reach of any patent jurisdiction in the world. This may or may not be the case. Indeed, WesternGeco does not contend that it is barred from recovering in the jurisdiction in which the services contracted was negotiated and signed, nor does it contend that it is barred from recovering in the jurisdiction from which the ship performing the

seismic surveys is flagged. In any event, the possible failure of liability provides no basis for ignoring the presumption against extraterritoriality.

IV

Because we reverse the district court's lost profits decision, we turn next to WesternGeco's conditional cross-appeal.

WesternGeco first challenges the district court's grant of ION's motion to exclude WesternGeco's expert from testifying as to a reasonable royalty. WesternGeco's damages expert, Raymond Sims, submitted an expert report in which he determined that the reasonable royalty rate for ION's alleged infringement was 10% of the revenue of ION's customers. In support of this, he explained that ION's customers had received $3.3 billion in revenue for performing surveys with the DigiFINs, and that they would not have been able to receive that revenue without the DigiFINs.

The district court excluded Sims from testifying as to a reasonable royalty. The district court reasoned "that ION, in a hypothetical negotiation with [WesternGeco], would [not] have ... agreed to a huge, profit-eliminating (and even revenue eliminating) royalty obligation for itself. As a matter of law, no such risk can be taken in a hypothetical negotiation in which infringement is deemed known. With knowledge of validity and infringement, such a financially catastrophic agreement would have been totally unreasonable."

J.A. 62.

District courts are tasked with the gatekeeping function of determining whether to allow an expert to testify. *See Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 592 (1993). "Faced with a proffer of expert scientific testimony, then, the trial judge must determine at the outset, pursuant to Rule 104(a), whether the expert is proposing to testify to (1) scientific knowledge that (2) will assist the trier of fact to understand or determine a fact in issue." *Id.* (footnote omitted). We review the district court's decision to exclude an expert for an abuse of discretion. *Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 146 (1997).

WesternGeco argues that the court improperly adopted a rule that a profit-eliminating royalty was per se unreasonable. It is true that there is no legal rule that caps the reasonable royalty by the amount of the infringer's profit.[8]

We conclude that the district court adopted no such absolute rule and did not abuse its discretion in excluding the expert. The district court expressly based its ruling on two facts—that the royalty was profit eliminating and that it was revenue

---

[8] *See, e.g., Aqua Shield v. Inter Pool Cover Team*, 774 F.3d 766, 770–71 (Fed. Cir. 2014); *Mars, Inc. v. Coin Acceptors, Inc.*, 527 F.3d 1359, 1374 (Fed. Cir. 2008), *modified on other grounds*, 557 F.3d 1377 (Fed. Cir. 2009); *Monsanto Co. v. Ralph*, 382 F.3d 1374, 1384 (Fed. Cir. 2004); *State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1580 (Fed.Cir.1989).

eliminating. Indeed, the proposed royalty was so high that it would have exceeded ION's revenue by four times. WesternGeco cites no case, and we are aware of none, in which we have held that a reasonable royalty can exceed, by a factor of four, the market price for the patented invention. As such, we see no error in the district court exercising its discretion to exclude the expert from testifying as to a reasonable royalty.[9]

V

Finally, WesternGeco challenges the district court's refusal to award enhanced damages for willful infringement.

In *In re Seagate,* we announced a two-prong test for willfulness:

> [T]o establish willful infringement, a patentee must show by clear and

---

[9] Although not expressly articulated by the district court, it is also worth noting that there were other reasons to exclude the expert's testimony. For example, after determining that the patented technology was worth 10% of total revenue, the expert used the revenue generated by ION's customers resulting from performing the oceanic surveys as the base for that 10% number, rather than the revenue generated by ION resulting from selling the infringing products. This increased, by more than tenfold, the estimated reasonable royalty. Again, we are aware of no case in which the plaintiff has used the defendant's customer's revenue as the revenue base for calculating a reasonable royalty, and WesternGeco does not identify one.

> convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.... The state of mind of the accused infringer is not relevant to this objective inquiry. If this threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer.

497 F.3d at 1371. In *Bard Peripheral Vascular, Inc. v. W.L. Gore & Associates, Inc.*, we explained that the objective inquiry is a legal question, to be answered by the judge and reviewed de novo. 682 F.3d 1003, 1007 (Fed. Cir. 2012).

The jury determined that WesternGeco demonstrated, "by clear and convincing evidence[,] that ION actually knew, or it was so obvious that ION should have known, that its actions constituted infringement of a valid patent claim [.]" J.A. 77. WesternGeco subsequently sought enhanced damages in light of the jury's finding. The district court denied WesternGeco's motion. The court noted that the jury already determined that the subjective prong was satisfied, but that it was the responsibility of the court to determine if the objective prong had been satisfied. After carefully reviewing ION's

noninfringement and invalidity defenses, the district court concluded that they were "not unreasonable by clear and convincing evidence," "not objectively baseless," and "reasonable." J.A. 26–28.

WesternGeco has not established that the district court erred in concluding that ION's defenses were reasonable and indeed gives relatively little attention to this issue. Instead, WesternGeco argues that ION was not successful with any of its defenses and that ION did not raise any of those defenses on appeal. But unreasonableness, not a lack of success, determines whether enhanced damages are awarded. *See Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1319 (Fed. Cir. 2010) ("Th[e] 'objective' prong of *Seagate* tends not to be met where an accused infringer relies on a reasonable defense to a charge of infringement.").

WesternGeco also argues that ION's customers brought the patents to ION's attention and voiced their concerns regarding possible infringement, and that ION was so concerned about the possibility of infringement that it hesitated to enter into indemnity agreements with its customers. These arguments bear on the subjective inquiry, not the objective inquiry—whether WesternGeco had objectively reasonable defenses. Whether our review is de novo or deferential, we see no error in the district court's determination.

CONCLUSION

We affirm in all respects, except that we reverse the

district court's refusal to grant JMOL eliminating the lost profits component of the jury award.

AFFIRMED–IN–PART, REVERSED–IN–PART, AND REMANDED

COSTS

Costs to neither party.

WALLACH, *Circuit Judge*, dissenting-in-part.

I agree with the majority's holdings with respect to standing, infringement, and willfulness. However, in an effort to respect the presumption against the extraterritorial application of United States law, the majority erroneously declines to consider WesternGeco L.L.C.'s ("WesternGeco") lost foreign sales when determining damages for infringement under 35 U.S.C. § 271(f) (2012). Because, under this court's precedents and those of the United States Supreme Court, the patent statute requires consideration of such sales as part of the damages calculation, I respectfully dissent.

It is beyond question that patent rights granted by the United States are geographically limited. As the Supreme Court long ago explained, "[t]he power ... granted [by the Constitution to promote the progress of ... useful arts] is domestic in its character, and necessarily confined within the limits of the United States." *Brown v. Duchesne*, 60 U.S. (19 How.) 183 (1856); *see also Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972) ("Our patent system makes no claim to extraterritorial effect; 'these acts of Congress do not, and were not intended to, operate beyond the limits of the United States'; and we correspondingly reject the claims of others to such control over our markets." (quoting *Duchesne*, 60 U.S. at 189)), *superseded in part by statute*, Patent Law

Amendments Act of 1984, Pub. L. No. 98–622, 98 Stat. 3383.

Consistent with this approach, Congress has conferred on patentees "the right to exclude others from making, using, offering for sale, or selling the invention *throughout the United States.*" 35 U.S.C. § 154(a)(1) (emphasis added). Although "[t]he presumption that United States law governs domestically but does not rule the world" is not unique to the patent context, it "applies with particular force in patent law." *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454–55 (2007).

Nevertheless, the limited geographic reach of United States patent law does not mean activities occurring outside the United States are categorically disregarded when determining issues of patent infringement. For example, 35 U.S.C. § 271(g) imposes liability based upon an underlying foreign use of a patented process, if the product made by that process is imported into the United States. Similarly, and relevant to the present matter, by enacting § 271(f) Congress imposed liability on those supplying from the United States components of a patented invention "in such manner as to actively induce the combination of such components *outside of the United States* in a manner that would infringe the patent if such combination occurred within the United States." 35 U.S.C. § 271(f)(1) (emphasis added).

The Supreme Court has described § 271(f) as "an exception to the general rule that our patent law

does not apply extraterritorially." *Microsoft*, 550 U.S. at 442; *see also Limelight Networks, Inc. v. Akamai Techs., Inc.*, 134 S. Ct. 2111, 2118 (2014) (Section 271(f)(1) "illustrates [that] when Congress wishes to impose liability for inducing activity that does not itself constitute direct infringement, it knows precisely how to do so."); *Promega Corp. v. Life Techs. Corp.*, 773 F.3d 1338, 1351 (Fed. Cir. 2014) ("Under 35 U.S.C. § 271(f)(1), a party may infringe a patent based on its participation in activity that occurs both inside *and outside the United States*.") (emphasis added); *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348, 1371 (Fed. Cir. 2013) ("[I]ndirect infringement, *which can encompass conduct occurring elsewhere*, requires underlying direct infringement in the United States.") (emphasis added) (citations omitted).

The relevance of foreign activities is not limited to the underlying issue of liability for *infringement*, but also relates to the associated issue of *damages*. It is on the issue of damages that the majority errs.

In general, a patentee is entitled to full compensatory damages where infringement is found. *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 654–55 (1983) (By enacting § 284, "Congress sought to ensure that the patent owner would in fact receive full compensation for 'any damages' he suffered as a result of the infringement.") (citation omitted); *Carborundum Co. v. Molten Metal Equip. Innovations, Inc.*, 72 F.3d 872, 881 (Fed. Cir. 1995)

("The primary purpose of compensatory damages is to return the patent owner to the financial position he would have occupied but for the infringement."); H.R. Rep. No. 1587, 79th Cong., 2d Sess. (1946) ("The object of the bill is to make the basis of recovery in patent infringement suits general damages, that is, *any damages the complainant can prove....*") (emphasis added). This general approach is rooted in the patent statute, which provides: "Upon finding for the claimant the court shall award the claimant damages *adequate to compensate for the infringement,* but in no event less than a reasonable royalty." 35 U.S.C. § 284 (emphasis added). Section 284 is a particular variation of the more general principle that, "'when a wrong has been done, and the law gives a remedy,'" "'[t]he injured party is to be placed, as near as may be, in the situation he would have occupied if the wrong had not been committed.'" *Albemarle Paper Co. v. Moody,* 422 U.S. 405, 418–19 (1975) (quoting *Wicker v. Hoppock,* 73 U.S. (6 Wall.) 94 (1867)).

These general principles of full compensation, of course, do not directly address the question of whether foreign activities may be considered when calculating such compensation. The Supreme Court, however, has answered this question in the affirmative, looking to non-infringing foreign sales to calculate lost profits where the patented product is manufactured in the United States. For example, in *Goulds' Manufacturing Co. v. Cowing,* the defendant manufactured 298 pumps "specially designed for drawing off the gas from oil-wells," for which "there was no market ... except in the oil-producing regions

of Pennsylvania and Canada." 105 U.S. 253 (1881) (internal quotation marks omitted). Without excluding the pumps sold in Canada, the Supreme Court found "a reasonable allowance for profits will be fifteen dollars on each pump, or $4,470 [i.e., 298 multiplied by $15 equals $4,470] in all." *Id.* at 258. The Court thus relied in part on foreign sales to calculate lost profits, explaining the appellant "could easily, and with reasonable promptness, [have filled] every order that was made." *Id.* at 256.

In *Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.*, the Court reviewed "an accounting of profits and an assessment of damages resulting from the infringement of a patent granted ... for certain new and useful improvements in grain drills, commonly known as shoe drills." 235 U.S. 641, 642–43 (1915) (internal quotation marks omitted). The defendants included wholesale dealers who purchased from manufacturers (who also infringed the patent). *Id.* at 643. Some of the drills were sold in Canada by the defendants. *Id.* at 650. The Court held the plaintiff was unable to recover "either profits or damages" as to these sales, specifically distinguishing *Goulds'* on the basis that "while [the infringing drills] were made in the United States, they were not made by the defendants." *Id.* By implication, had the defendants manufactured within the United States the infringing articles that were the subject of the foreign sales, those sales could have been used in the calculation of profits and therefore damages.

Consistent with Supreme Court precedent, this court has previously considered lost foreign sales to inform patent damages calculations. In *Railroad Dynamics, Inc. v. A. Stucki Co.*, the district court awarded $2,182,986 in damages based upon 52,183.5 infringing carsets multiplied by a royalty of $35 per carset, plus 6% compound interest. 727 F.2d 1506, 1510 n.1 (Fed. Cir. 1984). In upholding the award, this court noted:

> The award includes royalties for 1,671 carsets sold to foreign customers.... When it made the 1,671 carsets in this country, it infringed.... *Whether those carsets were sold in the U.S. or elsewhere is therefore irrelevant,* and no error occurred in including those carsets among the infringing products on which royalty was due.

Id. at 1519 (emphasis added).

The use of non-infringing foreign sales, following infringing domestic manufacture, as part of the base on which royalties or lost profits are calculated is only one example of reliance on non-infringing activity to arrive at an appropriate damages figure. Where method patents are involved, non-infringing *domestic* sales of products resulting from domestic infringement of the patent have been held relevant to the damages calculation. In *State Industries, Inc. v. Mor–Flo Industries, Inc.*, for example, the plaintiff held a patent on "a method of

insulating the tank of a water heater by using polyurethane foam." 883 F.2d 1573, 1575 (Fed. Cir. 1989). "The district court awarded [the plaintiff] its incremental profit on [the non-infringing] foam-insulated gas water heaters reflecting the percentage of sales revenue [the plaintiff] lost because of [the defendant's] infringement that would have been its profit," and this court affirmed. *Id.* at 1579–80; *see also Soverain Software LLC v. J.C. Penney Corp.*, 899 F. Supp. 2d 574, 583 (E.D. Tex. 2012) (upholding a damages calculation that relied on "the value of [non-infringing] products sold via the infringing websites as the royalty base," considering in particular "the profit earned on these [non-infringing] products"), *rev'd on other grounds,* 778 F.3d 1311 (Fed. Cir. 2015). Similarly, where a patented device is used to manufacture unpatented products that are later sold, the non-infringing sales can be used to calculate lost profits or reasonable royalties. *See Minco, Inc. v. Combustion Eng'g, Inc.*, 95 F.3d 1109, 1118 (Fed. Cir. 1996) ("In awarding both lost profits and a reasonable royalty, the trial court used the sale of [non-infringing] fused silica [produced using a patented kiln] as the baseline for measuring damages.").

In this case, the foreign sales of unpatented seismic surveys were made not by defendant-appellant ION Geophysical Corporation ("ION"), but by its customers. Maj. Op. at 1343–44, 1349. WesternGeco's lost profits might therefore be distinguished from those at issue in *Goulds', Dowagiac*, and *Railroad Dynamics* on two separate bases: first, the foreign sales were not of a patented

product but of an unpatented service in which a patent-practicing device was used; and second, the foreign sales in the present matter were not made by the defendant.[1]

With respect to the first difference, this court has previously allowed recovery of lost profits based on the recognition that "the economic value of a patent may be greater than the value of the sales of the patented part alone." *King Instruments Corp. v. Perego*, 65 F.3d 941, 950 n.4 (Fed. Cir. 1995). For example, under the doctrine of "convoyed sales," a patentee may recover lost profits based on lost sales of *unpatented* products if they are "sufficiently related to the patented product." *Warsaw Orthopedic, Inc. v. NuVasive, Inc.*, 778 F.3d 1365, 1375 (Fed. Cir. 2015). Similarly, "when claims are drawn to an individual component of a multi-component product" a patentee may recover "damages based on the entire market value of the accused product" so long as "the patented feature creates the basis for customer demand or

---

[1] The majority overreads *Dowagiac*. Maj. Op. at 1351–52. *Dowagiac* declined to impose liability for downstream foreign sales because the defendant was the downstream seller rather than the U.S. manufacturer and its "infringement consisted only in selling the drills after they passed out of the makers' hands." 235 U.S. at 650. That is, the defendant—who was comparable not to ION but to ION's customers—*did not infringe* as to the products sold to foreign buyers. In the present action, WesternGeco is not bringing suit against the downstream sellers, and the issue is not infringement, but damages.

substantially creates the value of the component parts." *VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1326 (Fed. Cir. 2014) (internal quotation marks and citation omitted); *see also Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co.*, 225 U.S. 604, 615 (1912) (Upon a sufficient showing, a patentee may recover "the profits and damages ... on the whole machine" if "the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature.") (internal quotation marks and citation omitted).

Although discussions of convoyed sales and the entire market value rule are generally addressed to products, there is no statutory or doctrinal reason to exclude functionally related services, as this court has acknowledged. *See State Contracting & Eng'g Corp. v. Condotte Am., Inc.*, 346 F.3d 1057, 1074 (Fed. Cir. 2003) (quoting with approval a jury instruction that "if ... an entire construction job is functionally a part of the patented inventions used on the job, then ... lost profits" may be awarded "for that entire construction job"). Moreover, the sale of the patented and unpatented products or services need not occur simultaneously. *See DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314, 1333 (Fed. Cir. 2009) (Whether patented and unpatented products are sold together or in separate transactions "is a distinction without a difference."); *see also Carborundum*, 72 F.3d at 881–82 (affirming the district court's holding that the patentee was "clearly entitled to lost profits on all [unpatented] spare parts sales," and finding, absent an injunction, it would have been entitled to lost profits on "future

lost sales of repair parts"). Here, where it appears WesternGeco "could [have] easily, and with reasonable promptness, fill[ed] every order that was made" for marine surveys, *Goulds'*, 105 U.S. at 256, where the patent-practicing devices "were made in the United States" and were made "by the defendants," *Dowagiac*, 235 U.S. at 650, and where "the patented feature creates the basis for customer demand" of the marine surveys, *VirnetX*, 767 F.3d at 1326, recovery should not be precluded.

With respect to the second difference—that ION did not itself make the downstream sales—there is no reason to allow ION to escape liability for lost profits simply based upon the business model it chose to employ. Under § 284, damages are based not on the infringer's profits but on harm suffered by the patentee. *See Robert Bosch, LLC v. Pylon Mfg. Corp.*, 719 F.3d 1305, 1315–16 (Fed. Cir. 2013). In this case, damages to WesternGeco are the same whether ION competes directly or indirectly. Moreover, had ION chosen to compete against WesternGeco directly by manufacturing components in the United States, assembling them abroad, and then underbidding WesternGeco to win and perform seismic survey contracts, there would be no sales of patent-practicing devices (or components thereof) on which to base a reasonable royalty. This case would then resemble *Minco* in that "[b]oth [the defendant] and [the patentee] used the invention to compete in [the same] market." *Minco*, 95 F.3d at 1118. That is, *Minco* upheld a calculation of lost profits based on a downstream, non-infringing sale of something other

than the patented product. The court should do so here.[2]

This court's en banc decision in *Cardiac Pacemakers,* cited by ION in support of its argument that extraterritorial sales cannot be considered, is not contrary. *See Cardiac Pacemakers, Inc. v. St. Jude Med., Inc.*, 576 F.3d 1348, 1362 (Fed. Cir. 2009) (en banc). In that case, this court "[held] that Section

---

[2] The majority

> see[s] no basis for extending § 271(f)(2) to cover lost profits *resulting from the use abroad* of U.S. manufactured goods or components thereof in light of the 'particular force' of the presumption against extraterritoriality in our patent laws. Certainly in drafting 271(f)(2), Congress did not provide for *liability* in convoyed-sales situations.

Maj. Op. at 1352 (emphases added) (citation omitted). In so stating, the majority elides three important issues. First, by categorizing the damages as "resulting from ... use abroad," it assumes without analysis that there is an insufficient connection between ION's proven infringement in the United States and damages (see discussion of *Power Integrations, infra*). Second, it fails to consider that the Supreme Court in *Goulds'* did not rely on an explicit authorization of Congress to award damages based upon activities occurring overseas. Third, by using the term "liability," the majority's statement ignores the critical distinction between *whether* a defendant is liable and *the amount for which* a defendant is liable. In any event, Congress stated whoever violates § 271(f) "shall be liable as an infringer." 35 U.S.C. § 271(f)(1) & (2). Under this court's precedents, the extent of liability for infringement, in appropriate cases, is determined by considering the sale of non-infringing products or services. *See generally King Instruments,* 65 F.3d at 947 ("Section 284 imposes no limitation on the types of harm resulting from infringement that the statute will redress.").

271(f) does not cover method claims." *Id.* at 1359. The export of non-infringing implantable cardioverter defibrillators that were then used abroad to practice a patented method could not give rise to liability under § 271(f) because "a component of a method or process is a step in that method or process," *id.* at 1362, but "one cannot supply the step of a method," *id.* at 1364. In simple terms, *Cardiac Pacemakers* held that because method claims are intangible, they cannot be exported ("supplie[d]") within the meaning of § 271(f). The point of law with respect to *infringement* under § 271(f) in *Cardiac Pacemakers,* however, is inapposite to the issue of *damages* the court now decides. Unlike the defendant in *Cardiac Pacemakers,* who shipped non-infringing implantable cardioverter defibrillators, there is no question that ION shipped components of a patented invention for combination abroad and that infringement liability under § 271(f) is proper. *See* Maj. Op. at 1347–48.

Most significantly, this court's decision in *Power Integrations* does not support the majority's view of damages. It is true that case stated damages for infringement under § 271(a) cannot be based on foreign sales simply "because those foreign sales were the direct, foreseeable result of ... domestic infringement." *See Power Integrations,* 711 F.3d at 1371. Read in isolation, this statement is inconsistent with *Goulds', Dowagiac,* and *Railroad Dynamics.*

However, despite its use of the word "direct," the court in *Power Integrations* was clearly

concerned with the sufficiency of the connection between the foreign activity and the domestic infringement. *Power Integrations* explained the plaintiffs had cited no case law supporting the use of "sales consummated in foreign markets, *regardless of any connection* to infringing activity in the United States," when calculating damages. *Id.* at 1371 (emphasis added). It noted the "estimate [of the plaintiff's expert witness] of $30 million in damages was *not rooted in* [*the defendant's*] *activity in the United States.*" *Id.* at 1372 (emphasis added) (internal quotation marks and citation omitted). Similarly, the district court decision expressed concern that the "estimate [of the plaintiff's expert witness] of $30 million in damages was *not* related to parts that were manufactured, used, or sold in the United States by [the defendant]." *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 589 F. Supp. 2d 505, 511 (D. Del. 2008).

Although the record in *Power Integrations* does not clearly describe the nature of the infringing conduct (e.g., sale, manufacture, or sample testing as part of the design process) in relation to the foreign sales activities, *see, e.g.*, 711 F.3d at 1370–71, what is clear is that both the district court and this court found the connection insufficient. Such an approach merely applies the sensible requirement that there be an appropriate connection between the infringing activity and the resulting lost sales. *See Rite–Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1546 & n.5 (Fed. Cir. 1995) (en banc) (explaining that damages for "remote consequences" of patent infringement "are not compensable," and noting disagreement with the

dissent on "where those lines are to be drawn"); *cf. F. Hoffmann-La Roche Ltd. v. Empagran S.A.*, 542 U.S. 155, 166 (2004) (indicating it is not "reasonable to apply [American antitrust] laws to foreign conduct insofar as that conduct causes *independent* foreign harm and that foreign harm *alone* gives rise to the plaintiff's claim") (emphasis modified). In contrast to the tenuous connection between infringement and harm in *Power Integrations*, *see* 711 F.3d at 1371–72, the majority does not question WesternGeco's assertion that "but for ION's sales to its customers, WesternGeco would have earned over $90 million dollars in profit from the ten lucrative services contracts performed abroad." Maj. Op. at 1349.

In any event, *Power Integrations* is distinguishable because the patentee in that case could presumably have protected itself from the foreign manufacture, sale, and use by obtaining patents abroad. *See Deepsouth Packing*, 406 U.S. at 531 ("[T]he wording of 35 U.S.C. §§ 154 and 271 reveals a congressional intent to have [the patentee] seek [protection] abroad through patents secured in countries where his goods are being used."); *see also Microsoft*, 550 U.S. at 456 ("If AT&T desires to prevent copying in foreign countries, its remedy today lies in obtaining and enforcing foreign patents."). Such reasoning loses much of its force where the extraterritorial activity takes place or could take place entirely on the high seas. *See* Maj. Op. at 1349 ("The service contracts were all to be performed on the high seas, outside the jurisdictional reach of U.S. patent law."); *see also* J.A. 10151 ("international waters"); *id.* at 1182 ("high seas"). *See*

generally United States v. Louisiana (The Louisiana Boundary Case), 394 U.S. 11, 23 (1969) ("Outside the territorial sea are the high seas, which are international waters not subject to the dominion of any single nation."); *WesternGeco L.L.C. v. Ion Geophysical Corp.*, 776 F. Supp. 2d 342, 370 (S.D. Tex. 2011) ("[A]ctivities in the [Exclusive Economic Zone] do not occur within the territory of the United States for purposes of U.S. patent law.").

For similar reasons, concerns that extraterritorial application of U.S. patent law could result in double recovery (e.g., by parallel suits brought under the patent laws of more than one country based on the same infringing act) or possibly interfere with foreign sovereignty are of minimal relevance here. Where components of a patented invention are supplied from one country and used exclusively on the high seas, it may be that no country's patent laws reach the conduct occurring in international waters absent a provision such as § 271(f). *See, e.g., Duchesne*, 60 U.S. (19 How.) at 196 ("[T]he high seas [are] out of the jurisdiction of the United States."); *Ocean Sci. & Eng'g, Inc. v. United States*, 595 F.2d 572, 574 (Ct. Cl. 1979) (It is uncertain whether Congress intended the patent laws to apply "to processes carried out on U.S. flag ships and planes at sea."). *See generally Equal Emp't Opportunity Comm'n v. Arabian Am. Oil Co.*, 499 U.S. 244, 265 (1991) (Marshall, J., dissenting) ("[T]he law of the flag state ordinarily governs the *internal* affairs of a ship.") (emphasis added) (internal quotation marks and citation omitted), *superseded by statute on other grounds*, Civil Rights Act of 1991,

Pub. L. No. 102–166, § 109, 105 Stat. 1071, 1077, *as recognized in Arbaugh v. Y & H Corp.*, 546 U.S. 500, 513 n.8 (2006); *Gardiner v. Howe*, 9 F. Cas. 1157, 1158 (C.C.D. Mass. 1865) (No. 5219) ("[Patent] jurisdiction extends to the *decks* of American vessels on the high seas....") (emphasis added); Restatement (Third) of Foreign Relations Law § 502(2) (1987) ("The flag state may exercise jurisdiction to prescribe, to adjudicate, and to enforce, with respect to the ship or any conduct that takes place *on* the ship.") (emphasis added).

The greater concern, therefore, is not the possibility of recovering too much, but the possibility that patent owners will be unable to obtain full compensation, as may well be the import of the majority's holding today. Under the majority's view of damages, plaintiffs such as WesternGeco who are the victims of proven infringement and who have sustained damages caused by the defendant's activity in the United States may not be able to fully recover even if they obtain patent rights abroad.[3] No

---

[3] Even if every country applies the law of the flag to prohibit vessel-based activities in international waters that are claimed in a patent issued by that country, it may be difficult for United States patentees to predict, at the time of patenting, either the flag that future vessels are likely to fly or the countries in which future contracts are likely to be "negotiated and signed." Maj. Op. at 1352. This difficulty in prediction distinguishes patents related to activities on the high seas from those obtained in the more common situation where businesses can attempt to predict the need for patenting in a given country based upon factors such as population size or historical market demand. *See Deepsouth Packing*, 406 U.S. at 531 ("[T]he

legislative history shows Congress intended to leave such patentees with an incomplete remedy.

The majority points out that § 271(f) is not broader than § 271(a),[4] that "liability attaches in the United States," and that "[i]t is the act of exporting the component from the United States which creates the liability." Maj. Op. at 1351; *see also* 35 U.S.C. § 271(b), (f)(1), (f)(2) & (g) (indicating who "shall be liable as an infringer"). The question here, however, is not whether "the export of a finished product can [] create liability for extraterritorial use of that product," Maj. Op. at 1350, but instead, what is the proper measure of damages *given* a finding of liability. Infringement has been consistently addressed at the various stages of the proceeding, and the majority acknowledges the role of foreign activities in the infringement determination under the statute. *Id.* at 1347–48. The jury found ION infringed under § 271(f)(1) and (2), and that it did so willfully. The district court denied ION's Renewed Motion for Judgment as a Matter of Law and Alternative Motion for New Trial Regarding Non–

---

wording of 35 U.S.C. [§ 271] reveals a congressional intent to have [the patentee] seek [protection] abroad through patents secured in countries *where his goods are being used*.") (emphasis added).

[4] Of course, § 271(f) is broader than § 271(a) in that it reaches the supply of "all *or a substantial portion of* the components of a patented invention." 35 U.S.C. § 271(f)(1) (emphasis added); *see also Microsoft*, 550 U.S. at 458 n.18 (explaining how § 271(f), "in one respect, reach[es] past the facts of *Deepsouth* ").

Infringement, and this court now affirms "the infringement finding with respect to (f)(2) [as] an adequate basis for liability." *Id.* at 1348. The question of whether ION is liable for infringement has been answered in the affirmative.

The majority states "§ 271(f) was designed to put domestic manufacturers who export components to be assembled into a final product in a similar position to domestic manufacturers who sell the final product domestically." *Id.* at 1351; *see also* S.Rep. No. 98–663, 98th Cong., 2d Sess., at 3 (1984) ("The bill simply amends the patent law so that when components are supplied for assembly abroad to circumvent a patent, the situation will be treated the same as when the invention is 'made' or 'sold' in the United States."). It asserts "[j]ust as the United States seller or exporter of a final product cannot be liable for use abroad, so too the United States exporter of the component parts cannot be liable for use abroad." Maj. Op. at 1351.

However, the cases from which the majority apparently draws this conclusion do not hold that foreign use can never be considered when calculating damages resulting from domestic infringement. In *Microsoft*, 550 U.S. 437, *see* Maj. Op. at 1349–50, the Court found no infringement under § 271(f); it did not address the issue of damages. Similarly, in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 769 F.3d 1371, 1380 (Fed. Cir. 2014), *see* Maj. Op. at 1351, this court found the defendant's "activities in the United States were insufficient to constitute a sale within the United States to support direct infringement,"

and did not reach the issue of damages with respect to those non-sales. Finally, the Supreme Court in *Duchesne*, 60 U.S. (19 How.) at 193–94, 198, *see* Maj. Op. at 1351, found no infringement based on the extraterritorial use of an improved gaff on a foreign sailing vessel that was temporarily present in Boston harbor.

Duchesne actually undermines the majority's assertion that damages for domestic manufacture cannot take into account value from use on the high seas. The *Duchesne* Court specifically stated that if the patented invention "had been manufactured on [the vessel's] deck while she was lying in the port of Boston, or if the captain had sold it there, he would undoubtedly have trespassed upon the rights of the plaintiff, *and would have been justly answerable for the profit and advantage he thereby obtained.*" *Duchesne*, 60 U.S. (19 How.) at 196 (emphasis added). Significantly, the Court noted "[t]he chief and almost only advantage which the defendant derived from the use of this improvement was on the high seas." *Id.* The Court thus concluded that where domestic manufacture leads to "profit and advantage" on the high seas, the defendant is answerable for that profit. *Id.*

Unsurprisingly, this court has indicated damages under § 271(f) may be based on lost foreign sales. In *Union Carbide Chemicals & Plastics Technology Corp. v. Shell Oil Co.*, this court held the district court "was in error" when it "prohibited Union Carbide from submitting evidence of Shell's foreign sales for the purpose of recovering additional

damages under 35 U.S.C. § 271(f)(2)." 425 F.3d 1366, 1378 (Fed. Cir. 2005), *overruled on other grounds by Cardiac Pacemakers,* 576 F.3d 1348. Although this court sitting en banc overruled *Union Carbide,* it did so on the basis that the export of a catalyst for use abroad in a patented method did not infringe under § 271(f) because the catalyst was not a "component" as required by the statute, and because "[§] 271(f) does not apply to method patents." *Cardiac Pacemakers,* 576 F.3d at 1363 n.4, 1365. It left undisturbed *Cardiac Pacemakers'* holding that evidence of foreign sales is relevant to the damages determination where infringement is found under § 271(f). *See id.* at 1365 ("We therefore overrule [*Union Carbide*] *to the extent that it conflicts with our holding today....*") (emphasis added).

In *Promega,* decided after *Cardiac Pacemakers,* this court confirmed that worldwide sales are relevant to the damages determination under § 271(f), i.e., that *Union Carbide's* holding with respect to the relevance of foreign sales remains good law. 773 F.3d at 1350–51. This court noted the "jury awarded lost profits ... based on *worldwide* sales ... under 35 U.S.C. § 271(f)(1)." *Id.; see also W.R. Grace & Co. v. Intercat, Inc.,* 60 F. Supp. 2d 316, 321 (D. Del. 1999) ("[P]laintiff is entitled to damages [under § 271(f)] based on Intercat's international sales."). Although this court vacated the damages award because "the challenged claims of four of the five asserted patents on which the jury based its damages verdict are invalid," it did not preclude the district court on remand from again considering worldwide sales as part of a renewed

damages calculation. *Promega Corp.*, 773 F.3d at 1358. To the contrary, *Promega* acknowledged the presumption "against the extraterritorial application" of the patent laws, but found that "Congress' chosen language [in § 271(f)] assigns liability to [the defendant's] conduct within the United States, *based on its extraterritorial effect.*" *Id.* at 1353 n.10 (emphasis added). The majority does not attempt to distinguish *Cardiac Pacemakers* or *Promega*.[5]

It is true some Federal Circuit decisions have stated lost profits are unavailable where the patentee does not sell its product in the United States. *See, e.g., Lindemann Maschinenfabrik GmbH v. Am. Hoist & Derrick Co.*, 895 F.2d 1403, 1406 n.2 (Fed. Cir. 1990) ("Because Lindemann did not compete in the sale of its invention in the United States, it did not, as it could not, seek damages on the basis of lost profits."); *Trell v. Marlee Elecs. Corp.*, 912 F.2d 1443, 1445 (Fed. Cir. 1990) ("Because Trell did not sell its invention in the United States, he could not seek damages on the basis of lost profits."). In these cases, however, the defendants' conduct appears to have taken place in the United States and no exports were at issue. They therefore

---

[5] The majority distinguishes *Union Carbide* on the basis that it addressed "[t]he extent to which ... royalties may be affected by lost profits suffered abroad," while the present matter does not. Maj. Op. at 1351 n.7. The majority offers no explanation as to why lost foreign sales should be relevant when calculating damages based on a reasonable royalty, but not when calculating damages based on lost profits.

stand only for the proposition that there can be no lost profits where the patentee would not have made sales in any event. *See King Instruments*, 65 F.3d at 951 n.5 ("In *Trell* and *Lindemann* ... the record does not show that the patentee sold *any* product in the United States. The patentee had no possible basis for a lost profits claim. These cases, like others, reflect the general rule that lost profits are recoverable only if demonstrated by adequate evidence in the record."). In this case, the district court found "WesternGeco presented sufficient evidence for the jury reasonably to find that it had the capability to exploit the demand," i.e., that but for the infringement, WesternGeco would have made additional sales. J.A. 34.

For these reasons, the majority's near-absolute bar to the consideration of a patentee's foreign lost profits is contrary to the precedent both of this court and of the Supreme Court. I therefore respectfully dissent in part.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

WESTERNGECO L.L.C., Plaintiff,
v.
ION GEOPHYSICAL CORPORATION, et al.,
Defendants.

Case No. 4:09–cv–1827. | June 19, 2013.

MEMORANDUM AND ORDER

KEITH P. ELLISON, District Judge.

Pending before the Court are the following motions:

1. ION's Partial Motion to Dismiss for Lack of Subject Matter Jurisdiction (Doc. No. 565);

2. ION's Rule 59 Motion for New Trial on Invalidity Under 35 U.S.C. §§ 102 and 103 (Doc. No. 550);

3. ION's Request for Findings and Conclusions on Enablement and, Alternatively, Motion for New Trial (Doc. No. 552);

4. ION's Renewed Motion for Judgment as a Matter of Law and Alternative Motion for New Trial Regarding Non–Infringement (Doc. No. 556);

5. ION's Motion for New Trial on Infringement Under 35 U.S.C. § 271(f)(2) (Doc. No. 557);

6. ION's Motion for JMOL and New Trial Due to

Incorrect Claim Construction (Doc. No. 561);

7. ION's Motion for Entry of Findings and Conclusions of No Willful Infringement, Renewed Motion for Judgment as a Matter of Law of No Willful Infringement, and Alternative Motion for New Trial (Doc. No. 559);

8. WesternGeco's Motion for Willfulness and Enhanced Damages (Doc. No. 560);

9. WesternGeco's Motion to Find this Case Exceptional Under Section 285 and for Attorneys' Fees (Doc. No. 554);

10. ION's Motion for JMOL, Motion for New Trial on Damages alternatively Motion for Remittitur (Doc. No. 562);

11. WesternGeco's Motion for Prejudgment Interest and Post–Discovery Damages (Doc. No. 553);

12. WesternGeco's Motion for Costs (Doc. No. 555);

13. ION's Motion to Compel Production of Documents From WesternGeco (Doc. No. 609); and

14. WesternGeco's Motion for a Permanent Injunction or, in the Alternative, an Ongoing Royalty (Doc. No. 558).

Upon considering the Motions, all responses thereto, the applicable law, and oral arguments, the Court finds that:

1. ION's Partial Motion to Dismiss for Lack of Subject Matter Jurisdiction (Doc. No. 565) must be **DENIED;**

2. ION's Rule 59 Motion for New Trial on Invalidity Under 35 U.S.C. §§ 102 and 103 (Doc. No. 550) must be **DENIED;**

3. ION's Request for Findings and Conclusions on Enablement and, Alternatively, Motion for New Trial (Doc. No. 552) must be **DENIED;**

4. ION's Renewed Motion for Judgment as a Matter of Law and Alternative Motion for New Trial Regarding Non–Infringement (Doc. No. 556) must be **DENIED;**

5. ION's Motion for New Trial on Infringement Under 35 U.S.C. § 271(f)(2) (Doc. No. 557) must be **DENIED;**

6. ION's Motion for JMOL and New Trial Due to Incorrect Claim Construction (Doc. No. 561) must be **DENIED;**

7. ION's Motion for Entry of Findings and Conclusions of No Willful Infringement, Renewed Motion for Judgment as a Matter of Law of No Willful Infringement, and Alternative Motion for New Trial (Doc. No. 559) must be **GRANTED;**

8. WesternGeco's Motion for Willfulness and Enhanced Damages (Doc. No. 560) must be **DENIED;**

9. WesternGeco's Motion to Find this Case Exceptional Under Section 285 and for Attorneys' Fees (Doc. No. 554) must be **DENIED;**

10. ION's Motion for JMOL, Motion for New Trial on Damages alternatively Motion for Remittitur (Doc. No. 562) must be **DENIED;**

11. WesternGeco's Motion for Prejudgment Interest and Post–Discovery Damages (Doc. No. 553) must be **GRANTED;**

12. WesternGeco's Motion for Costs (Doc. No. 555) must be **GRANTED in part and DENIED in part;**

13. ION's Motion to Compel Production of Documents From WesternGeco (Doc. No. 609) must be **DENIED;**

14. WesternGeco's Motion for a Permanent Injunction or, in the Alternative, an Ongoing Royalty (Doc. No. 558) must be **GRANTED.**

I. BACKGROUND

This is a patent infringement case originally brought by WesternGeco L.L.C. ("Plaintiff" or "WesternGeco") against ION Geophysical Corporation ("ION"). At issue in this case is marine seismic streamer technology that is deployed behind ships. These streamers, essentially long cables, use acoustic signals and sensors to create three-dimensional maps of the subsurface of the ocean floor in order to facilitate natural resource exploration and management. For many seismic studies, greater control over the depth and lateral position of streamers is important in order to achieve optimal imagery from the signals and to maneuver around impediments such as rocks and oil rigs.

WesternGeco's patents all pertain to streamer positioning devices, or devices that are used to control the position of a streamer as it is towed. At trial, WesternGeco argued that ION had infringed on four of its U.S. patents—U.S. Patent No. 7,293,520 (the "'520 Patent"); 7,162,967 (the "'967 Patent"), 7,080,607 (the "'607 Patent") ("Bittleston Patents" collectively); and U.S. Patent. No. 6,691,038 (the "'038 Patent" or "Zajac Patent").

After a three and a half week trial, the jury returned a verdict in favor of WesternGeco. (Doc. No. 536.) The jury found that ION infringed the '520 Patent, the '967 Patent, the '607 Patent, and the '038 Patent pursuant to Section 271(f)(1) & (2). The jury did not find anticipation or non-enablement of the '520 Patent or the '967 Patent. The jury did not find anticipation, obviousness or non-enablement of the '607 Patent or the ' 038 Patent. The jury did find that ION willfully infringed. The jury awarded $93.4 million in lost profits and a reasonable royalty of $12.5 million. Both parties have now filed numerous post-trial motions. The Court will address each of the motions in turn.

II. LEGAL STANDARDS

A. Judgment as a Matter of Law ("JMOL")

The Fifth Circuit reviews a district court's ruling on a motion for judgment as a matter of law *de novo*. *See Cambridge Toxicology Grp., Inc. v. Exnicios,* 495 F.3d 169, 179 (5th Cir. 2007). Judgment as a matter of law is appropriate "[i]f a party has been fully heard on an issue during a jury trial and the court finds that a reasonable jury would

not have a legally sufficient evidentiary basis to find for the party on that issue." *See* Fed. R. Civ. P. 50(a)(1); *Gomez v. St. Jude Med. Daig Div. Inc.*, 442 F.3d 919, 927 (5th Cir. 2006). "The decision to grant a directed verdict ... is not a matter of discretion, but a conclusion of law based upon a finding that there is insufficient evidence to create a fact question for the jury." *Omnitech Int'l v. Clorox Co.*, 11 F.3d 1316, 1323 (5th Cir. 1994) (citations omitted) (internal quotation marks omitted). A legally sufficient evidentiary basis requires more than a mere scintilla of evidence. *Hollywood Fantasy Corp. v. Gabor*, 151 F.3d 203, 211 (5th Cir. 1998).

The trial court is required to consider the entire record when considering a renewed judgment as a matter of law motion. *Reeves v. Sanderson Plumbing Prod., Inc.*, 530 U.S. 133, 149–50 (2000). Therefore, a court "should consider all of the evidence—not just that evidence which supports the non-mover's case—but in the light and with all reasonable inferences most favorable to the party opposed to the motion." *Goodner v. Hyundai Motor Co., Ltd.*, 650 F.3d 1034, 1040 (5th Cir. 2011).

B. Rule 59 Motion for New Trial

The district court's ruling on a Rule 59 motion for new trial is reviewed for an abuse of discretion. *Beckham v. Louisiana Dock Co., L.L.C.*, 124 Fed. Appx. 268, 270 (5th Cir. 2005). A district court can grant a new trial under F.R.C.P. 59(a) "for any reason for which a new trial has heretofore been granted in an action at law in federal court." A new trial should not be granted "unless, at a minimum,

the verdict is against the great weight of the evidence." *Dawson v. Wal-Mart Stores, Inc.*, 978 F.2d 205, 208 (5th Cir. 1992). The Court must again view the evidence "in a light most favorable to the jury's verdict, and the verdict must be affirmed unless the evidence points so strongly and overwhelmingly in favor of one party that the court believes that reasonable [jurors] could not arrive at a contrary conclusion." *Id.* "Where the jury could have reached a number of different conclusions, all of which would have sufficient support based on the evidence, the jury's findings will be upheld." *Id.* If an issue is raised for the first time on a motion for a new trial, the issue is waived. *Auster Oil & Gas, Inc. v. Stream*, 835 F.2d 597, 601 (5th Cir. 1988).

III. PARTIAL MOTION TO DISMISS

ION has filed a Partial Motion to Dismiss for Lack of Subject Matter Jurisdiction. (Doc. No. 565.) ION moves to dismiss for lack of subject matter jurisdiction with respect to WesternGeco's claims that ION infringed the Bittleston Patents. ION claims that WesternGeco does not own the Bittleston Patents and therefore lacks standing to sue for infringement.

A. Legal Standard

"Standing is a constitutional requirement pursuant to Article III and it is a threshold jurisdictional issue" that may be decided on a Rule 12(b)(1) motion. *Abraxis Bioscience, Inc. v. Navinta LLC*, 625 F.3d 1359, 1363 (Fed. Cir. 2010). WesternGeco bears the burden of proving standing

by a preponderance of the evidence. A case can be dismissed for lack of subject matter jurisdiction at any time. A court may consider evidence outside the pleadings when resolving a motion to dismiss for lack of subject matter jurisdiction under Rule 12(b)(1). *See Ramming v. U.S.*, 281 F.3d 158, 161 (5th Cir. 2001). Only a patent owner may have a remedy by civil action for infringement. *Paradise Creations, Inc. v. UV Sales, Inc.*, 315 F.3d 1304, 1308 (Fed. Cir. 2003). The Patent Act defines a patentee as the person to whom the patent as issued and any successors in title to the patentee. 35 U.S.C. § 100(d). Patent rights can only be assigned in writing. 35 U.S.C. § 261.

B. Chain of Title

ION argues that WesternGeco has not proved it has ownership of the Bittleston patents, and therefore, its standing to sue. WesternGeco has provided ION two types of documents, a Merger Agreement between Schlumberger Technology Corporation ("STC") and WesternGeco and assignments from the inventors to STC, but not from the inventors to WesternGeco. ION argues that WesternGeco must possess a written chain of title from the inventors. ION further argues that the USPTO assignment records do not contain any executed assignment document from the inventors to WesternGeco. Based on these facts, ION argues that WesternGeco has not proved it is the owner of the patents.

ION has never raised this issue in a motion before and had stipulated earlier in the suit that

WesternGeco did own the patents. While "[c]onsent of parties cannot give the courts of the U.S. jurisdiction ... the parties may admit the existence of facts which show jurisdiction, and the courts may act judicially upon such admission." *Ry. Co. v. Ramsey*, 89 U.S. (22 Wall.) 322, 327 (1875). First, ION had stated in its Answer and Counterclaims that "[o]n information and belief, the Bittleston Patents were assigned to WesternGeco." (Doc. No. 6 ¶ 106.) In the same Answer, ION also stated it did not know for certain whether WesternGeco owned the patents, but proceeded for three years as if WesternGeco did own them. Second, ION agreed the jury should be instructed that WesternGeco owns the patents and is entitled to collect damages. ION now attempts to assert a position that is wholly different from its position regarding patent ownership throughout this litigation.

Additionally, the Patent Office issued each of the Bittleston patents to WesternGeco as the "Assignee." The entity to whom the Patent Office issues a patent is the presumptive owner. ION has the burden to rebut that presumption, which it has not done. Conversely, WesternGeco has presented sufficient evidence to prove its ownership of the patents. WesternGeco presented evidence at the trial that the inventors assigned their patent to STC. Then in the November 30, 2000 Technology Transfer Agreement, STC transferred and assigned the patents to WesternGeco. That agreement stated:

> STC agrees to and hereby does grant, transfer and assign to [WesternGeco] with regard to the

> Territory all of STC's rights, title and interest in and to the Intellectual Property in existence."

"Intellectual Property" was defined in the agreement to include any patent rights. ION argues that an "agreement" to assign is not the same as assigning. However, the language of the agreement states clearly that STC "agrees to and hereby does grant, transfer, and assign." The Court is satisfied that WesternGeco was assigned the rights.

ION further argues that the assignment to STC occurred in 2001. Since STC and WesternGeco merged in 2000, STC did not have the patent rights to assign and therefore the patents still belonged to STC. The Court finds this argument unconvincing. The 2001 assignments state that the inventors "acknowledge [they] have sold, assigned, transferred and conveyed" the U.S. patent rights to STC. (Doc. No. 606, Ex. 11 at WG 955146; Ex. 12 at WG 955144.) This is a confirmation of the inventors' assignments to STC that dates back to the 1998 Cost Sharing Agreement, which states:

> Ownership of the Patent Rights ... shall be vested in the Participants in their Respective Areas. (Doc. No. 606, Ex. 10 at WG 955272.)

STC was designated the "Participant" for the "Respective Area". Therefore, STC owned the patents when it assigned the patents to WesternGeco in 2000.

ION has proceeded throughout the years as if WesternGeco owned the patents and the record reflects that WesternGeco does own the patents by written assignment. Therefore, the Court must deny ION's Motion to Dismiss.

IV. INVALIDITY

ION has filed a Rule 59 Motion for New Trial on Invalidity Under 35 U.S.C. §§ 102 and 103. (Doc. No. 550.) ION moves for a new trial on the basis that all the asserted patent claims but two are invalid as anticipated or obvious under 35 U.S.C. §§ 102 and 103. Specifically, ION contends that Claim 18 of the '520 Patent and Claim 15 of the '607 Patent were anticipated by U.S. Patent No. 5,790,472 ("Workman Patent"). Claim 14 of the '038 Patent was anticipated by International Application Publication WO 2000/20895 (the "'895 Publication"). Also, ION asserts that Claim 15 of the ' 967 Patent and Claim 15 of the '607 Patent were obvious based on the combination of the Workman Patent; and the International Application Publication WO 98/28636 (the "'636 Patent") and Claim 14 of the '038 Patent were made obvious by the '895 Patent. After considering the arguments, the Court finds that the jury's verdict was reasonable and there was no indication of unfairness to warrant a new trial. This motion must be denied.

A. Anticipation

A patent is invalid as anticipated under 35 U.S.C. § 102 when "every element and limitation of the claim was previously described in a single prior art reference, either expressly or inherently, so as to

place a person of ordinary skill in possession of the invention." *Sanofi–Synthelabo v. Apotex, Inc.*, 550 F.3d 1075, 1082 (Fed. Cir. 2008). The standard for proving anticipation is clear and convincing evidence. *Id.* The prior art that ION asserts anticipates WesternGeco's patents were all considered by the United States Patent and Trademark Office ("PTO") during prosecution, yet the PTO still granted WesternGeco the patents at issue. While not dispositive, this is further evidence the jury could have relied upon when reaching its verdict. At trial, the jury decided that WesternGeco's patents were not anticipated and ION has not met the clear and convincing evidence standard to prove otherwise.

1. Claim 18 of the '520 Patent

ION claims that the Workman Patent anticipated Claim 18 of the '520 Patent. However, the jury could reasonably find from evidence and testimony presented at trial that the Workman Patent does not teach or enable lateral steering or the "streamer positioning devices" claimed in the Bittleston Patents. The streamer positioning devices mentioned in the Workman Patent refers to depth control devices, not lateral positioning devices as used in the Bittleston patents. (Doc. No. 574 p. 7.)

Likewise, ION claims that the Workman Patent anticipates this claim because it discloses the "streamer separate mode." The Court construed "streamer separation mode" to mean "a control mode that attempts to set and maintain the spacing between adjacent streamers" (Doc. No. 120 p. 45.)

The Workman Patent states only that a "threshold parameter" of "at least 100 meters" be maintained. (Doc. No. 583 p. 5.) This threshold parameter does not specify that a precise spacing be set and maintained between adjacent streamers. WesternGeco aptly points out that, without maintaining any space, the streamers could range from 100 meters apart to 100 miles. (Doc. No. 602 p. 3.) With this, and other evidence and testimony, the jury could reasonably find that Claim 18 of the '520 Patent was not anticipated.

2. Claim 15 of the '607 Patent

ION argues that the Workman Patent anticipates Claim 15 of the '607 Patent by disclosing limitation (a), (b), and (c) of the Claim. Claim 15 states:

> (a) a plurality of streamer positioning devices on or inline with each streamer,
>
> (b) a prediction unit adapted to predict positions of at least some of the streamer positioning devices,
>
> (c) a control unit adapted to use the predicted positions to calculate desired changes in positions of one or more of the streamer positioning devices.

However, at trial, ION's expert witness, Robert Brune admitted that Claim 15 of the '607 patent requires lateral steering and Workman does not enable lateral steering. To anticipate, a patent must teach and enable all claim limitations. Since

lateral steering is a limitation of Claim 15, it is reasonable that the jury would conclude that Claim 15 of the '607 Patent was not anticipated.

3. Claim 14 of the '038 Patent

ION argues that Claim 14 of the '038 Patent is anticipated based on the '895 Publication, which discloses all of the limitations of Claim 14. However, Mr. Brune admitted at trial that the '895 Publication does not disclose the 4D surveys claimed in the '038 Patent. The jury could weigh this evidence and testimony and conclude that Claim 14 was not anticipated.

B. Obviousness

A patent is invalid for obviousness "if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains." 35 U.S.C. § 103(a). "Obviousness is a legal determination that may be submitted to a jury with proper instruction." *In re Hayes Microcomputer Products, Inc. Patent Litigation,* 982 F.2d 1527, 1539 (Fed.Cir.1992). ION expressly agreed to submit the question of obviousness to the jury in the form of the special verdict form. (Doc. No. 536.) ION has not met its burden to overturn the jury's finding of nonobviousness.

1. Claim 15 of the '967 Patent

ION argues that Claim 15 of the '967 Patent is obvious based on the combination of the Workman Patent and the '636 Publication, which are prior art. Claim 15 reads:

> An array of seismic streamers towed by a towing vessel comprising:
>
> (a) a plurality of streamer positioning devices on or inline with each streamer, at least one of the streamer positioning devices having a wing;
>
> (b) global control system transmitting location information to at least one local control system on the [*sic*] at least one streamer positioning device having a wing, the local control system adjusting the wing.

However, ION has failed to show that any person of ordinary skill in the art would have selected and combined these prior art elements in the normal course of research and development to yield the claimed invention. *Unigene Labs., Inc. v. Apotex, Inc.*, 655 F.3d 1352, 1360 (Fed. Cir. 2011). ION has not met its burden to overturn the jury's finding of nonobviousness.

2. Claim 15 of the '607 Patent

ION argues that Claim 15 of the '607 Patent is obvious based on the combination of the Workman Patent and the '636 Publication, which are prior art. At trial, Mr. Brune explained that the Workman Patent, '636 Publication and '607 Patent are in the

same field. Therefore, ION argues, a person of ordinary skill in the art would be motivated to combine the Workman Patent and the '636 Publication. However, ION fails to explain how the combination could disclose and enable all of these limitations and harmonize the differences in the two patents. *In re Kumar*, 418 F.3d 1361, 1369 (Fed. Cir. 2005) ("To render a later invention unpatentable for obviousness, the prior art must enable a person of ordinary skill in the field to make and use the later invention."). ION has not met its burden to overturn the jury's finding of nonobviousness.

3. Claim 14 of the '038 Patent

ION argues that Claim 14 is obvious based on the '895 Publication. Mr. Brune testified that, even assuming that the tracking systems are not expressly or inherently disclosed in the '895 Publication, they would have been obvious to a person having ordinary skill in the art. Mr. Brune further testified that, at least since the late 1980s, compass navigation, acoustic navigation, and satellite navigation have existed. However, Mr. Brune also remarked during cross examination that using laterally steerable streamers in order to match a later survey to a reference position from a prior survey or reference file "is definitely a notable improvement." (Trial Tr. At 3988:20–25.) The jury could weigh this admission and reasonably conclude that Claim 14 was not obvious.

ION has not demonstrated that the jury's verdict on anticipation or obviousness was against the great weight of the evidence. *See Dresser–Rand*

Co. v. Virtual Automation, Inc., 361 F.3d 831, 838–39 (5th Cir. 2004). Therefore, ION's Rule 59 Motion for New Trial on Invalidity Under 35 U.S.C. §§ 102 and 103 must be denied.

V. ENABLEMENT

ION has filed a Request for Findings and Conclusions on Enablement and, Alternatively, Motion for New Trial. (Doc. No. 552.) The Patent Act states:

> The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor or joint inventor of carrying out the invention.

35 U.S.C.A. § 112.

To be enabled, a patent specification must provide sufficient information to enable a person skilled in the relevant art to make and use the claimed invention without undue experimentation. The Federal Circuit has set forth the following factors that courts may weigh in deciding whether a disclosure would require undue experimentation:

1. the quantity of experimentation necessary;

2. the amount of direction or guidance presented;

3. the presence or absence of working examples;

4. the nature of the invention;

5. the state of the prior art;

6. the relative skill of those in the art;

7. the predictability or unpredictability of the art; and

8. the breadth of the claims.

Martek Biosciences Corp. v. Nutrinova, Inc., 579 F.3d 1363, 1378 (Fed. Cir. 2009). ION must "prove invalidity based on nonenablement by clear and convincing evidence." *MagSil Corp. v. Hitachi Global Storage Technologies, Inc.*, 687 F.3d 1377, 1380 (Fed. Cir. 2012). After considering the motion, all responses, oral argument, and the applicable law, the Court must deny this motion.

A. Findings and Conclusions

ION claims that the Court must state its findings of facts and conclusions of law because the enablement question was sent to the jury as an "advisory determination." Rule 52(a)(1). However, both parties agreed to submit the question of enablement to the jury and neither party indicated this was merely an advisory verdict. The Federal Circuit has held that "it is not error to submit legal questions to the jury as part of a Rule 49(a) special verdict form, since the answer to the legal question necessarily resolves any disputed underlying factual

issues, the court must accept implicit factual findings upon which the legal conclusion is based when they are supported by substantial evidence." *Kinetic Concepts, Inc. v. Smith & Nephew, Inc.*, 688 F.3d 1342, 1359 (Fed. Cir. 2012). The Federal Circuit has held that enablement is a question of law, but "is amenable to resolution by the jury where the issues are factual in nature." *BJ Services Co. v. Halliburton Energy Services, Inc.*, 338 F.3d 1368, 1372 (Fed. Cir. 2003). Therefore, the Court need not enter findings and conclusions of law since the question was properly submitted to the jury.

B. New Trial

In the alternative, ION moves for a new trial on enablement on the Bittleston Patents (composed of Claims 18, 19, 23 of '520 Patent; Claim 15 of '967 Patent; and Claim 15 of the '607 Patent), and Claim 14 of the Zajac Patent ('038 Patent).

1. Bittleston Patents

The Bittleston Patent claims in suit require a control system and ION argues that there is not sufficient information to enable a deterministic control system. ION relies on the trial testimony of two witnesses for this assertion. Dr. Thomas Edgar stated that "[i]t would require an extreme amount of experimentation" to execute the control system. (Trial Tr. 3146:14–18.) A former WesternGeco employee, James Martin, said that crucial information was not disclosed so as to maintain a trade secret. (Trial Tr. 3671:5–3674:10.)

However, ION's expert, Dr. Edgar, admitted in cross-examination that there is no mention of deterministic calculations, and since this is not a claimed invention, it need not be enabled. Dr. Edgar also testified that a person of ordinary skill in the art could use a "simple feedback control loop" with the patent's disclosure to make and use the claimed control modes. (Trial Tr. 3148:11–3150:19.) Furthermore, Mr. Martin stated that he did not know whether the withheld information had to do with the control mode. This testimony, from witnesses not under WesternGeco's control, are sufficient to support a jury verdict that the Bittleston Patents were enabled, and ION has not met the standard of clear and convincing evidence to warrant a new trial.

2. Zajac Patent

ION claims that Claim 14 of the Zajac Patent is not enabled because it fails to teach one skilled in the art how to make or use the invention in order to determine what positioning commands to issue to active streamer positioning devices. ION cites various parts of Mr. Zajac's testimony in which Mr. Zajac admits that the device is very complex and the patent does not enable one to implement the claimed invention. However, WesternGeco presented testimony that the Zajac Patent is an improvement of the Bittleston Patents and it explicitly builds on and cites to those patents. Mr. Brune also testified that the Zajac Patent, read in conjunction with the Bittleston Patents, enabled the claimed invention. Furthermore, other portions of Mr. Zajac's testimony reveal that Mr. Zajac did not include some specifications because those practices were already

known to and available to one of ordinary skill in the art. *Koito Mfg. Co. v. Turn–Key–Tech., LLC*, 381 F.3d 1142, 1156 (Fed. Cir. 2004) (a patentee does not "need to include in the specification that which is already known to and available to one of ordinary skill in the art."). Furthermore, ION's expert, Dr. Edgar, also conceded on cross-examination that the active streamer positioning device was enabled. (Trial Tr. at 3167:19–23.) The jury had the opportunity to weigh this evidence and the verdict is not against the great weight of evidence. Therefore, ION has not shown that a new trial is warranted on enablement and its motion should be denied.

VI. Non–Infringement

ION's has filed a Renewed Motion for Judgment as a Matter of Law and Alternative Motion for New Trial Regarding Non–Infringement (Doc. No. 556) on all claims because it asserts that no claims have been infringed. WesternGeco asserted that the following claims were literally infringed: Claims 18, 19 and 23 of the '520 Patent; Claim 15 of the ' 967 Patent; Claim 15 of the '607 Patent; and Claim 14 of the '038 Patent. To literally infringe, the accused system must embody every claim limitation as construed by the court. *Gen. Elec. Co. v. Nintendo Co.*, 179 F.3d 1350, 1357–58 (Fed. Cir. 1999). WesternGeco also asserted that the following claims were infringed under the doctrine of equivalents ("DOE") if they were not literally infringed: Claims 18, 19 and 23 of the '520 Patent; and Claim 15 of the '967 Patent. DOE requires that the accused system contain each limitation of the claim or its equivalent. *Warner–Jenkinson Co. v. Hilton Davis Chem. Co.*,

520 U.S. 17, 40 (1997). A claim limitation is "equivalently present in an accused device if only 'insubstantial differences' distinguish the missing claim element from the corresponding aspects of the accused device." *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1309–10 (Fed. Cir. 2002). Each of the claims are discussed below, but ultimately, the Court must deny ION's motion.

A. Claims 19 and 23 of the '520 Patent

ION argues that Claims 19 and 23 of the '520 Patent do not infringe literally or under the Doctrine of Equivalents. ION argues that Claim 19 does not infringe literally because ION's system does not include a "feather angle mode." The Court construed "feather angle mode" to mean "a control mode that attempts to set and maintain each streamer in a straight line offset from the towing direction by a certain feather angle." (Doc. No. 530, "Jury Instructions", No. 6.) ION argues that only the ghost streamer, and not "each streamer," is set to the feather angle. However, sufficient evidence supports the jury's verdict that Claim 19 of the '520 Patent was literally infringed. The remaining streamers align themselves with the reference streamer at that same feather angle. A number of Fugro's and ION's employees and customers testified at trial that ION's system operates in feather mode. (Trial Tr. 3468:25–3469:8, 3474:19–25 (Daniel Seale, ION's senior systems engineer); *id.* at 2055:12–15, 2062:7–9, 3340:17–3342:1, 3353:2–11, 3362:14–23, 3433:15–24, 3435:3–3436:6 (Crawford Macnab, ION's Orca software project manager); *id.* at 1008:5–7, 1009:4–8, 1013:22–1014:19, 1024:21–1025:10, 1028:18–22,

1030:1–3 (Leif Morten By, Fugro's former Navigation Manager); *id.* at 3025:8–13 (David Moffat, ION's Senior Vice President)). The jury could reasonably determine that there was literal infringement.

ION argues that Claim 23 of the '520 Patent does not infringe literally because it does not have the "feather angle mode" or a "turn control mode." ION argues that, because there is no feather angle mode and the "turn control mode" depends on it, there is no literal infringement. However, the preceding paragraph demonstrates that there is not enough evidence to overturn the jury's verdict on "feather angle mode." As for the "turn control mode," the Court construed it to mean a "mode wherein streamer positioning device(s) generate a force in the opposite direction of a turn and then directing each streamer positioning device to the position defined in the feather angle mode." (Jury Instruction, No. 6.) ION argues that both DigiBIRD and DigiFIN products would have to "generate a force in the opposite direction", but the DigiBIRD is undisputedly a depth-control device only that cannot generate forces in the opposite direction of a turn. Evidence and testimony at trial showed that DigiFIN products did generate a force in the opposite direction of the turn. Literal infringement does not depend on DigiBIRD products also generating a force in the opposite direction. The Court's construction did not require all of the streamer positioning devices to participate in the turn control mode, only one or more devices. Therefore, the jury could have found that DigiFIN's turn control mode was sufficient to literally infringe Claim 23 of the '520 Patent. ION has not shown that the weight of the

evidence was against the jury's verdict on Claims 19 and 23 of the '520 Patent.

B. Claim 15 of the '607 Patent

Claim 15 of the '607 Patent reads:

> An array of seismic streamers towed by a towing vessel comprising:
>
> ...
>
> (b) a prediction unit adapted to predict positions of at least some of the streamer positioning devices ...

ION argues that Claim 15 of the '607 Patent cannot be infringed because of how the word "predict" is defined. ION argues that the jury instructions obligate the jury to apply the ordinary meaning of the term "predict" because the Court did not construe the term. ION claims that the plain and ordinary meaning of the term "predict" requires a future element, and ION's devices do not tell the future positions of the streamer position devices. ION made this argument before this Court previously and this Court held that "predict" is not limited to future "wall-clock" times. The Court held that the future sense of "predict" is not the plain and ordinary meaning of "predict" to a person of ordinary skill in the art. Predict could mean using a past position to "predict" position at a later time, such as the present position. At an earlier time, this Court rejected ION's construction of "predict" and finds no reason to overturn its decision now. Therefore, ION's Motion for JMOL or New Trial on claim 15 of '607 Patent must be denied.

C. Claim 15 of the '967 Patent

Claim 15 of the '967 Patent reads:

> An array of seismic streamers towed by a towing vessel comprising:
>
> ...
>
> (b) a global control system transmitting location information to at least one local control system ...

The Court construed "location information" to mean "information regarding location." (Jury Instruction, No. 6.) ION argues that its system does not transmit location information from the Lateral Controller to DigiFINs as required by Claim 15. However, WesternGeco presented testimony at trial by expert, Dr. Michael Triantafyllou, stating that the DigiFIN did receive the fin angle, which is "an equivalent concept, whether you send location or a fin calculated on location." (Trial Tr. 1463:9–22.) Other evidence was also presented at trial to show that this fin angle was location information. Crawford Macnab, ION's software project manager, confirmed that ORCA sends location information to the lateral controller and that the lateral controller manipulates and sends this location information to the DigiFIN. (Trial Tr. 2053:24–2054:4; *see also id.* at 3431:24–3432:4, 3433:7–10.) Sufficient evidence supports the jury's finding on Claim 15 of the '967 Patent.

D. Claim 14 of the '038 Patent

Relevant to ION's argument, Claim 14 of the '038 Patent reads:

> A seismic streamer array tracking and positioning system comprising:
>
> ...
>
> A master controller for issuing vertical and horizontal positioning commands to each ASPD for maintaining a specified array geometry;
>
> ...
>
> Compares the vertical and horizontal positions of the streamers versus time and the array geometry versus time to desired streamer positions and array geometry versus time ...

ION argues that it could not infringe literally since the Lateral Controller does not send "target depth" to the DigiFIN and it does not perform a comparison function as required by Claim 14. However, neither Claim 14 nor the Court's construction require "target depth" to be sent, merely "positioning commands" that are "signals or instructions to control positioning." (Doc. No. 120 p. 46.) WesternGeco presented evidence at trial that DigiFIN did just this. Additionally, evidence and testimony was presented to support a finding that DigiFIN compares desired streamer positions versus time. Dr. Triantafillou explained that ION's system "compares the vertical and horizontal positions of the streamers versus time and the array geometry

versus time to desired streamer positions and array geometry versus time." (Trial Tr. 1355:22–1370:24, 1443:4–14.) The jury could have reasonably relied on this information to reach its verdict.

ION also argues that its system does not include the "active streamer positioning device" ("ASPD") recited in Claim 24. An ASPD was construed by the Court as "a device capable of controlling the vertical and horizontal position of the seismic streamer". (Jury Instructions, No. 6.) Before trial, the Court decided that ION's DigiFIN device could control the vertical and horizontal position of the streamer, thereby preventing ION from arguing that DigiFIN was not an ASPD. (Doc. No. 402 p. 9.) ION argues that the Court decided wrongly because DigiFIN cannot control depth. ION does not present any new evidence and the Court need not overrule its previous decision that DigiFIN is an ASPD. Accordingly, ION's Motion regarding for Claim 14 of the '038 Patent must be denied.

VII. INFRINGEMENT UNDER 35 U.S.C. § 271(f)(2)

ION has filed a Motion for New Trial on Infringement Under 35 U.S.C. § 271(f)(2) (Doc. No. 557), claiming the evidence cannot support a finding that ION possessed the requisite knowledge to infringe 35 U.S.C. § 271(f)(2). Section 271(f) was enacted in response to the Supreme Court's decision in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972). The loophole presented in *Deepsouth* was that shipping an unassembled patented product abroad for later assembly avoids patent

infringement. This Court interpreted § 271(f)(2) to have the same intent requirement as contributory infringement under § 276(c). (Doc. No. 372 p. 7.) Specifically, this Court held that the intent requirement of § 271(f)(2) "requires a plaintiff to prove that the defendant (1) intended the combination of components; (2) knew that the combination he intended was patented; and (3) knew that the combination he intended would be infringing if it occurred in the United States." (*Id.*) Neither party disputes this statutory construction.

ION denies intent to infringe on all claims because it contends it did not know it was infringing. First, ION argues that it could not have intended to infringe Claim 19 of the '520 Patent because it reasonably understood that its system did not comprise the required feather angle mode. Second, ION argues it could not have intended to infringe Claim 23 of the '520 Patent because it required ION's system to have a feather angle mode and the turn control mode and ION claims it did not think its system had either of these modes. Third, ION argues it could not have intended to infringe Claim 15 of the '967 Patent because it did not think its system had location information. Fourth, ION argues it could not have intended to infringe Claim 15 of the '607 Patent because it did not think its system had a prediction unit. Lastly, ION argues it could not have intended to infringe Claim 14 of the '038 Patent because it asserts its system did not have a master controller or an ASPD.

However, ION does not dispute the jury's determination that neither the DigiFIN nor the

Lateral Controller has any substantial non-infringing uses. Nor does ION dispute that it knew that the DigiFIN and the Lateral Controller were especially made or adapted for use in the patented invention. The Supreme Court has held, "One who makes and sells articles which are only adapted to be used in a patented combination will be presumed to intend the natural consequences of his acts; he will be presumed to intend that they shall be used in the combination of the patent." *Metro–Goldwyn–Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 932 (2005). ION responds that the inquiry is not about intent, but knowledge, so *Grokster*, which concerns § 272(c), does not apply. However, in a previous Order, this Court noted that § 272(c) has the same intent requirement as § 272(f)(2). (Doc. No. 372 p. 7.) In *Spansion, Inc. v. Int'l Trade Comm'n*, 629 F.3d 1331 (Fed. Cir. 2010), the Federal Circuit held that because "appellants were aware of the ... patent, and [patentee] successfully showed that the accused devices did not have any substantial noninfringing uses", then "presum[ing] the requisite knowledge for contributory infringement ... was not erroneous." *Id.* at 1355. ION has not shown that the weight of the evidence is contrary to the jury's verdict to warrant a new trial. Therefore, this motion should be denied.

VIII. CLAIM CONSTRUCTION

ION has filed a Motion for JMOL and New Trial Due to Incorrect Claim Construction. (Doc. No. 561.) ION moves for JMOL or new trial for non-infringement of Claims 18, 19, and 23 of the '520 Patent, Claim 15 of the ' 967 Patent, and Claim 15 of the '607 Patent, claiming there was not sufficient

evidence to sustain the verdict of infringement under 35 U.S.C. § 271(f) when the correct construction of "streamer positioning device" is applied. ION similarly argues there is not sufficient evidence to sustain the verdict if the correct construction of "active streamer positioning device" is used with respect to Claim 14 of the '038 Patent. The Court already decided these claim constructions in 2010. (Doc. No. 120.)

It appears that ION's motion is procedurally improper since it failed to move under Rule 50(a) on the basis of an "incorrect claim construction." ION contends that it argued JMOL for non-infringement on each of the patents, but JMOL for non-infringement is not a motion for incorrect claim construction, which ION now argues. Second, ION failed to object to the jury instructions, which construed the terms at issue. Third, ION's motion could be understood as a motion for reconsideration of this Court's claim construction order (Doc. No. 120), in which case the motion is untimely since it comes two years after the order. It appears to the Court that ION is merely rehashing its prior claim construction arguments and has not presented any change in law or fact that would cause the Court to overturn its previous ruling. Therefore, ION's motion regarding incorrect claim construction must be denied.

IX. WILLFUL INFRINGEMENT

Both parties have filed motions on the issue of willful infringement. ION has filed a Motion for Entry of Findings and Conclusions of No Willful

Infringement, Renewed Motion for Judgment as a Matter of Law of No Willful Infringement, and Alternative Motion for New Trial. (Doc. No. 559.) WesternGeco has filed a Motion for Willfulness and Enhanced Damages. (Doc. No. 560.) In 2007, the Federal Circuit altered the willful infringement inquiry to one of recklessness. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007). The Federal Circuit requires a two-prong showing of recklessness by clear and convincing evidence. *Id.* The first prong requires a showing of objective recklessness and the second a showing of subjective recklessness. *Bard Peripheral Vascular, Inc. v. W.L. Gore & Associates, Inc.*, 682 F.3d 1003, 1005 (Fed. Cir. 2012) *cert. denied*, 133 S. Ct. 932 (2013). To establish objective recklessness, WesternGeco would have to prove that the "infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent. Once the threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk ... was either known or so obvious that it should have been known to the accused infringer." *Bard Peripheral Vascular, Inc. v. W.L. Gore & Associates, Inc.*, 682 F.3d at 1005. The objective prong is a question of law to be decided by the Court; the subjective prong is a question of fact that was decided by the jury. *Id.* at 1005–06. The Court had not yet decided the objective prong before the subjective prong was submitted to the jury, which found willful infringement. After considering the arguments made by each party, the Court finds no objective recklessness, and therefore, no willfulness.

A. Objective Recklessness

The Federal Circuit has recognized that "in ordinary circumstances, willfulness will depend on an infringer's prelitigation conduct." *Seagate*, 497 F.3d at 1374. The Court must base its determination of objective recklessness "on the record ultimately made in the infringement proceedings". *Bard*, 682 F.3d at 1008. WesternGeco argues that objective recklessness is proven because the jury found subjective recklessness and the Court ruled in favor of WesternGeco as a matter of law regarding ION's infringement of the ' 520 Patent, ION's defenses of laches, equitable estoppel, waiver, and unclean hands, and ION's § 101, written description, best mode and indefiniteness invalidity defenses. However, WesternGeco's assertion that the Court's grant of summary judgment and the jury's infringement findings are dispositive of the objective recklessness inquiry is incorrect. The Federal Circuit is clear that "[d]efeat of a litigation position, even on summary judgment, does not warrant an automatic finding that the suit was objectively baseless; all of the circumstances must be considered." *Aspex Eyewear Inc. v. Clariti Eyewear, Inc.*, 605 F.3d 1305, 1315 (Fed. Cir. 2010). Instead, to prove the objective prong, WesternGeco must show by clear and convincing evidence that "[ION] acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *Bard*, 682 F.3d at 1005. Thus, WesternGeco has the burden to show that "no reasonable litigant could realistically expect success on the merits." *Id.* at 1006, 1008; *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1378 (Fed. Cir. 2011); *Old Reliable Wholesale,*

Inc. v. Cornell Corp., 635 F.3d 539, 544 (Fed. Cir. 2011).

ION claims that it was not unreasonable for it to rely on its belief that there was no infringement because it reasonably believed:

- Claim 19 of the '520 did not have a feather angle mode;
- Claim 23 of the '520 Patent did not have a feather angle mode or turn control mode;
- Claims of the '520 Patent did not have control systems;
- Claim 15 of the '967 Patent did not have location information;
- Claim 15 of the '607 Patent did not have a prediction unit;
- Claim 14 of the '038 Patent did not have a master controller or an ASPD.

1. Claims 18, 19, and 23 of the '520 Patent

At issue are the "feather angle mode" and the "turn control mode" limitations of these claims. The Court construed these modes as:

> *Feather angle mode:* a control mode that attempts to set and maintain each streamer in a straight line offset from the towing direction by a certain feather angle.

> *Turn control mode:* mode wherein streamer positioning device(s) generate a force in the opposite direction of a turn and then directing each streamer positioning device to the position defined in the feather angle mode.

(Doc. No. 120, 24–27, 45.) At trial, it was uncontroverted that ION's system does not set and maintain each streamer at a certain feather angle. Instead, ION's system only sets the "ghost streamer" at a specific feather angle. (Trial Tr. 3781:3–3784:9.) The Court finds that ION's defense against infringement is not objectively baseless in that no reasonable litigant could realistically expect to succeed. Likewise, the uncontroverted evidence at trial was that the streamer positioning devices in ION's system could not all generate a force in the opposite direction of a turn and then be directed to the position defined in the feather angle mode. (Trial Tr. 3786:7–23.) Specifically, the DigiBIRDs could not "generate a force in the opposite direction of the turn." Though the jury found in favor of WesternGeco, ION's defense for turn control mode was not unreasonable.

2. The '607 Patent

Claim 15 of the '607 Patent requires "a prediction unit adapted to predict positions of at least some of the [SPDs]." ION claims that the use of the word "predict" led it to believe the claim required a forecasting of future positions rather than an estimation of current positions. Though the Court ultimately construed the term "predict" to mean the ability to not be bound by wall-clock times and could

mean present time, ION's argument is not unreasonable by clear and convincing evidence.

3. The '967 Patent

WesternGeco contends that ION's user manual and DigiFIN's product specification both describe transmission of location information from a global control system to a local control system as in Claim 15 of the '967 patent. Claim 15 of the '967 Patent requires "a global control system transmitting location information to at least one local control system on the at least one [SPD]." ION construed an SPD to have the capacity to steer both laterally and vertically. (Doc. No. 73 p. 6.) Therefore, because the DigiFINs only receive a fin angle command from the alleged global control system, it did not transmit "information regarding location." (Trial Tr. 2767:9–25.) It was ION's position that the fin angle does not represent the location, latitude, longitude, depth, or lateral position to which the DigiFIN is to be moved. (Trial Tr. 3451:22–25, 3462:16–3463:24.)

WesternGeco argues that infringement of this claim was objectively reckless because a third party, StatoilHydro, conducted an infringement investigation and concluded that the '967 Patent "clearly envisages a system working along broadly the same lines as described above in relation to ION." (Doc. No. 560 p. 8.) The parties argue about the admissibility of the investigation for the truth of the matter asserted. However, the Court need not reach that point in the objective recklessness inquiry. The Federal Circuit has delineated the purposes of each of the prongs:

> *Seagate* established a two-pronged test for establishing the requisite recklessness. Thus, to establish willful infringement, "a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." Once the "threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk ... was either known or so obvious that it should have been known to the accused infringer."

Bard, 682 F.3d at 1005 (citations omitted). Therefore a third party's opinion regarding ION's possible infringement is more appropriate for the subjective recklessness inquiry rather than for objective recklessness. Focusing only on ION's asserted defenses, the Court does not find them objectively baseless.

4. The '038 Patent

The Court construed an ASPD as a device capable of controlling the vertical and horizontal position of the seismic streamer. (Doc. No. 120 p. 46.) ION's litigation defense for the '038 Patent was that DigiFIN was not an ASPD because the DigiFIN could not be commanded to steer a streamer to a particular depth and lateral position so as to maintain a specified array shape. (Trial Tr. 3499:15–3500:2.) ION further argued that it believed its system did not consist of a master controller for

issuing vertical and horizontal positioning commands to each ASPD for maintaining a specified array geometry. The Court finds and holds that this was a reasonable defense.

5. ION's Invalidity Defenses

ION's defenses at trial were lack of enablement, anticipation and obviousness. The Court considered ION's defenses above in ION's Rule 59 Motion for New Trial on Invalidity Under 35 U.S.C. §§ 102 and 103. (Doc. No. 550.) Though the Court does not find for ION on invalidity, its arguments are not objectively baseless. Therefore, the Court finds no objective recklessness.

B. Subjective Prong

Because the Court finds no objective recklessness, the threshold standard, it need not evaluate the jury's finding of subjective recklessness for reasonableness. WesternGeco must prove both subjective and objective recklessness by clear and convincing evidence. Since WesternGeco has not proven objective recklessness by clear and convincing evidence, the Court finds no willful infringement.

X. EXCEPTIONAL

WesternGeco has filed a Motion to Find this Case Exceptional Under Section 285 and for Attorneys' Fees. (Doc. No. 554.) "The court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. The award of attorneys' fees serves as a "deterrent[ ] to blatant, blind, willful infringement of valid patents." *Mathis v. Spears*, 857 F.2d 749, 754 (Fed. Cir. 1988).

The first step is to decide whether the case is exceptional by clear and convincing evidence within the meaning of § 285. *Beckman Instruments, Inc. v. LKB Produkter AB*, 892 F.2d 1547, 1551 (Fed. Cir. 1989). Second, if the case is deemed exceptional, the Court must determine whether an award of fees is appropriate and, if so, in what amount. *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300, 1308 (Fed. Cir. 2012).

To find a case exceptional, there must be some "material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed. R. Civ. P. 11, or like infractions." *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). "Litigation misconduct generally involves unethical or unprofessional conduct by a party or his attorneys during the course of adjudicative proceedings." *Highmark*, 687 F.3d. at 1315–16. Further, a lawyer's conduct cannot be evaluated with the benefit of hindsight. *Christiansburg Garment Co. v. EEOC*, 434 U.S. 412, 421–22 (1978). If the court finds the case to be exceptional, then it can determine whether attorneys' fees are appropriate. *Beckman Instruments, Inc.*, 892 F.2d at 1551. "[B]efore imposing sanctions under its inherent power, a court must make a specific finding that the sanctioned party acted in "bad faith." " *Maguire Oil Co. v. City of Houston*, 143 F.3d 205, 209 (5th Cir. 1998).

WesternGeco makes a number of arguments as to why the Court should find this case exceptional. Each will be discussed in turn, and ultimately, the Court finds that this case is not exceptional.

A. Willfulness

A finding of willfulness does not require a finding that a case is exceptional under § 285. *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1582 (Fed. Cir. 1992) (affirming district court decision declining to find a case exceptional despite a jury finding of willfulness due, in part, to the closeness of the willfulness question); *Laitram Corp. v. NEC Corp.*, 115 F.3d 947, 955 (Fed. Cir. 1997) (affirming district court's finding case not exceptional and denial of attorneys' fees despite jury's willfulness finding given infringer's presentation of a good faith defense against willfulness and substantial challenge to infringement). However, as discussed above, the Court found no willful infringement so this cannot be a factor in favor of finding the case exceptional.

B. Vexatious Litigation and Other Litigation Misconduct

Another criteria for declaring a case exceptional includes vexatious litigation and litigation misconduct. "Any attorney ... who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorneys' fees reasonably incurred because of such conduct." 28 U.S.C. § 1927. An exceptional case based on litigation misconduct is reserved for

extreme cases. Such sanctions are an extraordinary remedy that should be "sparingly applied." *FDIC v. Calhoun*, 34 F.3d 1291, 1297 (5th Cir. 1994). A court "may not shift the entire financial burden of an action" under § 1927 "except when the entire course of proceedings were unwarranted and should neither have been commenced nor persisted in." *Calhoun*, 34 F.3d at 1297.

WesternGeco claims ION was a vexatious litigant because it asserted meritless defenses and counterclaims; used unnecessary tactics such as Hague requests during discovery; and filed repeated motions for reconsideration. According to WesternGeco, vexatious litigation tactics during trial included attempting to re-litigate infringement and inventorship and argue an irrelevant "own patent" defense. Further, vexatious tactics post-trial included new meritless defenses. However, the Court is not convinced that this conduct rises to the level of vexatious litigation or misconduct pursuant to § 1927. This was a complicated case that spanned many years and nearly a month of trial. ION initially had to defend itself against 163 claims of infringement, which would require a defense strategy that includes many filings, defenses, and arguments. The Court noted multiple times that the issues were close questions of law and fact. Furthermore, ION's defenses and counterclaims were hotly contested as evidenced by the long Memoranda and Orders issued by this Court. The Court has seen this case from its inception and does not find that ION's litigation conduct rises to the high level necessary to find this case exceptional.

XI. DAMAGES

ION moves for JMOL, new trial, or remittitur on damages. (Doc. No. 562.) ION claims that the $105.9 million award decided by the jury was based on two defective and overlapping damage models: lost profits and reasonable royalty. The jury awarded WesternGeco 100% of the lost profits it sought and 84% of the reasonable royalty it sought. This amounted to $93.4 million for lost profits and $12.5 million in reasonable royalty. "[A] decision on remittitur ... is within the sound discretion of the trial court ... and damages are set aside 'only upon a clear showing of excessiveness.' An excessive award exceeds the 'maximum amount calculable from the evidence.' " *Fractus, S.A. v. Samsung Elecs. Co.*, 876 F. Supp. 2d 802, 831 (E.D. Tex. 2012).

A. Lost Profits

1. Foreign Infringement

ION argues that the lost profits award must be vacated because it is not based on the domestic acts of infringement in this case but on the revenues that WesternGeco estimated its overseas competitors received for their non-infringing uses of ION's equipment in ten seismic surveys performed in foreign waters. ION says to do so is not permitted by § 271(f) and would give improper extraterritorial effect to U.S. law. ION insists that it can only be liable for "supplying" the component and cannot extend to subsequent "making" or "using" of a device abroad. However, Section 271(f)(1) in whole states:

> Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

If ION were strictly held liable for supplying, then § 271(f) would lose all its weight, allowing a loophole for manufacturers to export components for infringing uses abroad. The legislative history noted that § 271(f) was intended to prevent copiers from avoiding U.S. patents by supplying components of a patented product in this country so that the assembly of the components may be completed abroad. Patent Law Amendments, Pub.L. No. 98–622, 1984 U.S. Code Cong. & Admin. News (98 Stat.) at 5828. This section of the patent law amendment was proposed in response to the U.S. Supreme Court's decision in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), which created a loophole in prior patent law, allowing copiers to avoid liability for products patented in the United States, by shipping the patented components for combination in foreign countries. The Federal Circuit and district courts have repeatedly awarded lost profits under § 271(f) based on lost foreign sales. *See, e.g., Union Carbide Chems. & Plastics Tech. Corp. v. Shell Oil*

Co., 425 F.3d 1366, 1378 (Fed. Cir. 2005), *overruled on other grounds* (approving reliance on "foreign sales for the purpose of recovering additional damages under 35 U.S.C. § 271(f)(2)."); *W.R. Grace & Co.—Conn. v. Intercat, Inc.*, 60 F. Supp. 2d 316, 321 (D. Del. 1999) (holding "plaintiff is entitled to damages based on Intercat's international sales.").

Furthermore, while 35 U.S.C.A. § 271(a) limits infringing sales to those sales made within the United States, lost profits based on an accused infringer's sales of a patented product in a foreign country may be properly recoverable as an item of lost profits if the patentee can show "a reasonable probability that but for the infringement," it would have made the foreign sales that were made by the accused infringer. Such foreign sales are only proper to include in the damage calculus when there is an act of infringement occurring in the United States directly associated with the foreign sale, such as the making of the product in the United States, if the predicates of § 271(f) can be met. 4 Annotated Patent Digest § 30:44. It was undisputed at trial that every DigiFIN that ION sold was made in and supplied from the United States. (*See, e.g.*, Trail Transcript 2788:22–2790:10.) Therefore, lost profits can appropriately be recovered from these infringing sales.

2. *Panduit* Test

Although not separately required, the *Panduit* factors support the jury's lost profits award. The *Panduit* test provides that to obtain profits on sales the patentee would have made but for the infringement, the patent owner must prove: (1)

demand for the patented product; (2) absence of acceptable non-infringing substitutes, (3) his manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit he would have made. *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978).

The record evidence satisfies the *Panduit* test, which creates a presumption of "but for" causation when met. But before the *Panduit* factors are analyzed, the Court must address ION's argument that the *Panduit* test does not apply. ION proceeded before trial and during trial as if the *Panduit* test applied. Before trial, both parties agreed that the *Panduit* factors were appropriate. (Doc. No. 402 p. 6 ("Mr. Sims applied the methodological approach that all parties agree is appropriate by utilizing the *Panduit* factors.")) During trial, ION's damages expert, Mr. Gunderson, spent over an hour and a half explaining to the jury his analysis of the *Panduit* factors in this case. (*See, e.g.*, Trial Tr. 4665:16–4698:9, 4701:23–4742:5.) Even ION's actions aside, applying the *Panduit* factors was one appropriate means by which the jury could find lost profits. (Jury Instruction No. 19 ("it would have made the sales it says it lost but for the infringement."))

ION argues that even if the *Panduit* test is applicable, the factors are not met with sufficient evidence. The Court finds that WesternGeco presented sufficient evidence to prove each of the four prongs. First, ION conceded at trial that there was demand for the patented product. (Doc. No. 562

pp. 15–24; Trial Tr. 4669:9–4670:3.) Second, WesternGeco presented evidence regarding the Nautilus and eBird, which the jury could reasonably conclude were not acceptable, non-infringing alternatives available during the relevant time period. Third, WesternGeco presented evidence through Mr. Sims, who concluded that WesternGeco would have had 59 months of available capacity to perform the lost jobs, more than double the capacity required. (Trial Tr. 2266:5–2267:25, 2297:6–18, 2445:5–16.) Therefore, WesternGeco presented sufficient evidence for the jury reasonably to find that it had the capability to exploit the demand. Fourth, WesternGeco presented its lost profit calculation through the Customer Relationship Management ("CRM") database, which WesternGeco's damages expert, Raymond Sims, relied on in his calculations. ION argues the CRM was not reliable. However, the Court allowed the CRM into evidence and the jury had the opportunity to weigh the evidence. The *Panduit* factors were one way for the jury to find lost profits. Based on the evidence presented at trial, the jury could reasonably have found lost profits.

B. Reasonable Royalty

1. Double Counting

ION claims there was improper recovery of both measures of damages because a patentee may recover either lost profits or a reasonable royalty for each infringing act, but not both. *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301,

1324 (Fed. Cir. 2009) ("Two alternative categories of infringement compensation are the patentee's lost profits and the reasonable royalty he would have received through arms-length bargaining."). ION claims the jury was instructed in such a way that they could award both a reasonable royalty and lost profits for the same acts of infringement. However, the jury instructions were clearly worded to avoid double counting:

> If you find that WesternGeco has established infringement, WesternGeco is entitled to at least a reasonable royalty to compensate it for that infringement. If you find that WesternGeco has not proved its claim for lost profits, or has proved its claim for lost profits for only a portion of the infringing sales, then you must award WesternGeco a reasonable royalty for all infringing sales for which it has not been awarded lost profits damages.

(Jury Instruction No. 20.) The jury instruction is the exact wording of the Model Patent Jury Instructions provided by the Federal Circuit Bar Association:

> If you find that [patent holder] has established infringement, [patent holder] is entitled to at least a reasonable royalty to compensate it for that infringement. If you find that [patent holder] has not proved its claim for lost profits, or has proved its claim for lost profits for only a portion of the

> infringing sales, then you must award [patent holder] a reasonable royalty for all infringing sales for which it has not been awarded lost profits damages.

(Model Patent Jury Instruction p. 88.) ION did not object to this jury instruction at trial and even if it had, the instructions are worded clearly to avoid double counting.

2. Apportionment

ION argues that the reasonable royalty found by the jury fails to apportion the damages to account for the value of WesternGeco's patented improvement. ION argues that a reasonable royalty may be calculated on the sale of a product provided that the royalty reflects only the contribution of the patented technology, not the entire value of the product. ION claims WesternGeco's patents offer an improvement to existing technology rather than a revolutionary invention. At trial, on behalf of WesternGeco, Mr. Sims applied an analytical approach to quantifying the value of the patented technology. ION had the opportunity thoroughly to cross examine Mr. Sims at trial and the jury could make its own determinations of his credibility.

3. Marking

ION also argues it was erroneous for the Court to deny ION's requested marking instruction, allowing the jury to award excessive damages. When a patentee fails to show either that it marked or was not required to mark, the patentee is precluded from recovering damages for any infringement that occurred prior to the date the alleged infringer was

notified of the infringement. ION claims that, because Mr. Sims's testimony on the reasonable royalty included damages for infringement prior to the date of actual notice, the Court's failure to instruct on marking resulted in an improper award of damages. This Court has already considered and rejected ION's arguments regarding a marking instruction. (Doc. No. 562 p. 32; Doc. No. 508 p. 5; Doc. No. 530 p. 24.) ION has not presented new evidence that would require the Court to overturn its previous decisions.

XII. PREJUDGMENT INTEREST AND POST–DISCOVERY DAMAGES

A. Prejudgment Interest

WesternGeco has filed a Motion for Prejudgment Interest and Post–Discovery Damages. (Doc. No. 553.) ION does not dispute that prejudgment interest is appropriate, and both parties agree that the prejudgment interest should be compounded annually. The Supreme Court has interpreted 35 U.S.C. § 284[1]to mean that "prejudgment interest should ordinarily be awarded" in patent infringement cases. *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655 (1983). The only dispute is at what rate the interest is calculated. WesternGeco claims that the prejudgment interest

[1] "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement ... together with interest and costs as fixed by the court." 35 U.S.C. § 284.

should be awarded at the Texas Statutory Rate.[2] ION argues that the prime rate should be used. The Federal Circuit has held that "[a] trial court is afforded wide latitude in the selection of interest rates, and may award interest at or above the prime rate." *Uniroyal, Inc. v. Rudkin–Wiley Corp.*, 939 F.2d 1540, 1545 (Fed. Cir. 1991) (affirming an award of prejudgment interest at the prime rate). *See also Bio–Rad Laboratories, Inc. v. Nicolet Instrument Corp.*, 807 F.2d 964, 969 (Fed. Cir. 1986) ("The rate of prejudgment interest and whether it should be compounded or uncompounded are matters left largely to the discretion of the district court."); *Paper Converting Mach. Co. v. Magna–Graphics Corp.*, 745 F.2d 11, 24, 223 U.S.P.Q. 591, 600 (Fed. Cir. 1984); *Gyromat Corp. v. Champion Spark Plug Co.*, 735 F.2d 549, 557, 222 U.S.P.Q. 4, 9–10 (Fed. Cir. 1984); *Railroad Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1520, 220 U.S.P.Q. 929, 942 (Fed. Cir. 1984); *Lam, Inc. v. Johns–Manville Corp.*, 718 F.2d 1056, 1066, 219 U.S.P.Q. 670, 676 (Fed. Cir. 1983). In exercising that discretion, however, the district court must be guided by the purpose of prejudgment interest, which is "to ensure that the patent owner is placed in as good a position as he would have been

---

[2] The Texas Statutory Rate is: (1) the prime rate as published by the Board of Governors of the Federal Reserve System on the date of computation; (2) five percent a year if the prime rate as published by the Board of Governors of the Federal Reserve System described by Subdivision (1) is less than five percent; or (3) 15 percent a year if the prime rate as published by the Board of Governors of the Federal Reserve System described by Subdivision (1) is more than 15 percent." Tex. Fin. Code Ann. § 304.003 (West).

had the infringer entered into a reasonable royalty agreement" and permits the patentee to recover "the forgone use of the money between the time of infringement and the date of the judgment." *Devex*, 461 U.S. at 655–56.

"Courts have recognized that the prime rate best compensates a patentee for lost revenues during the period of infringement because the prime rate represents the cost of borrowing money, which is "a better measure of the harm suffered as a result of the loss of the use of money over time." " *IMX, Inc. v. LendingTree, LLC*, 469 F. Supp. 2d 203, 227–28 (D. Del. 2007) (*citing Mars, Inc. v. Conlux USA Corp.*, 818 F. Supp. 707, 720–21 (D. Del. 1993), aff'd, 16 F.3d 421, 1993 WL 516659 (Fed. Cir. 1993)). Other courts have found that "[t]he prime rate, compounded quarterly, is a conservative, middle-of-the road approach that takes into account normal market fluctuations." *NTP Inc. v. Research in Motion, Ltd.*, 270 F. Supp. 2d 751, 763 (E.D. Va. 2003) amended, CIV.A. 3:01CV767, 2003 WL 22746080 (E.D. Va. Aug. 5, 2003). Therefore, the Court finds that the prime rate is the appropriate rate to be used in prejudgment interest. Since the parties have reached agreement, the interest will be compounded annually. Prejudgment interest should be awarded on both the lost profits and the royalty portions of the damages awarded for patent infringement. The interest should be awarded from the date of infringement to the date of judgment. ION is instructed to submit appropriate calculations to the Court within ten days.

B. Accounting

At the hearing on February 21, 2013, the Court ordered ION to submit its post-trial accounting because of a concern that ION's executive chairman and former CEO, Robert Peebler, was not truthful during his trial testimony. On August 13, 2012, Mr. Peebler testified under oath to the jury that ION had stopped selling DigiFIN after the Court's June 29, 2012 entry of summary judgment regarding Claim 18 of the '520 Patent. At the hearing, the Court asked ION if Mr. Peebler's testimony was truthful. ION's response was that ION Geophysical Inc. had not, but that ION Dubai, a foreign subsidiary of the Defendant, had.

ION filed its post-trial accounting which described two "sales" that occurred in September 2012. (Doc. No. 620.) ION argues that one of the "sales" was a delivery required under a March 2012 contract with Shanghai Offshore Petroleum Geophysical Corporation ("SOPGC"). ION argues that since the contract was signed in March 2012, before the Court's ruling, the sale also occurred in March 2012. The other sale was a sale and supply that occurred outside of the United States. The transaction was between ION S.a.r.l., a Luxemburg company, and a foreign buyer, where DigiFINs were shipped from Dubai to places outside of the United States. This is very troubling to the Court despite ION's argument that such "sales" were not sales in violation of the Court's order. At trial, WesternGeco had records of sales up until May 2011. These new records show that 1,353 more units were sold by ION than were disclosed at the time of trial. It also appears that ION relocated all of its U.S.

manufactured DigiFIN units to Norway the week after the Court's summary judgment decision.

The Court finds that WesternGeco is entitled to supplemental damages for ION's sales since May 2011. *See Stryker Corp. v. Davol, Inc.*, 234 F.3d 1252 (Fed. Cir. 2000) (affirming district court's decision that a court may award a successful patent plaintiff supplemental damages to compensate the plaintiff for any infringement occurring between the date of the jury's verdict and the date of the judgment.). Because the Court has only recently learned of the need for supplemental damages. WesternGeco is ordered to submit a motion regarding supplemental damages within 15 days.

XIII. COSTS

WesternGeco has filed a Motion for Costs in the amount of $535,542.03. (Doc. No. 555.) Local Rule 54.2, FRCP 54(d)(1), 35 U.S.C. § 284 and 28 U.S.C. § 1920[3] allows the prevailing party, to claim

---

[3] A judge or clerk of any court of the United States may tax as costs the following:

> **(1)** Fees of the clerk and marshal;
>
> **(2)** Fees for printed or electronically recorded transcripts necessarily obtained for use in the case;
>
> **(3)** Fees and disbursements for printing and witnesses;
>
> **(4)** Fees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case;
>
> **(5)** Docket fees under section 1923 of this title;
>
> **(6)** Compensation of court appointed experts, compensation of interpreters, and salaries,

certain costs. The costs are "limited to relatively minor, incidental expenses." *Taniguchi v. Kan Pacific Saipan, Ltd.*, 132 S. Ct. 1997, 2006, (2012). A district court may decline to award costs enumerated in § 1920, but may not award costs not listed in the statute. *Crawford Fitting Co. v. J.T. Gibbons, Inc.*, 482 U.S. 437, 441 (1987). The specific costs are discussed below.

A. Costs Relating to Fees of the Clerk and Docket Fees

Costs relating to fees of the clerk and docket fees may be recovered as authorized by 28 U.S.C. § 1920(1) & (5). (Doc. No. 555, Ex. 2.) WesternGeco claims it incurred $350.00 in these fees and ION does not dispute this amount.

B. Costs Relating to Fees for Service of Summons and Subpoenas

WesternGeco has withdrawn its request for subpoena costs.

C. Costs Relating to Depositions and Transcripts

Video and written transcripts are recoverable under 28 U.S.C. § 1920(2). WesternGeco claims it incurred $399,052.36 in costs relating to depositions and transcripts. (Doc. No. 555, Ex. 4.) ION argues that a substantial part of that requested cost is not

---

fees, expenses, and costs of special interpretation services under section 1828 of this title.

28 U.S.C.A. § 1920 (West).

recoverable. ION claims that the costs are bloated with incidentals, which are generally not recoverable.

1. Incidental Fees

First, ION argues that costs for synchronizing videotaped depositions ($25,340) are not recoverable. The Court agrees. Other courts have found that video synchronization is not a necessity but for the convenience of counsel. *See, e.g., U.S. ex rel. Gonzalez v. Fresenius Med. Care N. Am.*, 761 F. Supp. 2d 442, 450 (W.D. Tex. 2010) *aff'd sub nom. Gonzalez v. Fresenius Med. Care N. Am.*, 689 F.3d 470 (5th Cir. 2012) ("The Court finds, however, that video synchronization was a convenience to the parties and not a necessity."). The Fifth Circuit has held that "charges incurred merely for the convenience of one party's counsel should not be taxed to the other." *Fogleman v. ARAMCO (Arabian Am. Oil Co.)*, 920 F.2d 278, 286 (5th Cir. 1991). WesternGeco should not be able to recover for costs of video synchronizing.

Second, ION contests expenses for RealTime transcription of depositions ($11,911). Courts may award RealTime costs when it is found to be a necessary cost. *Kinzebaw v. Case LLC*, 05–1483, 2006 WL 1096683 (Fed. Cir. Apr. 26, 2006). This was a complex and lengthy trial. ION filed more than twenty briefs during trial which required responses from WesternGeco. The Court finds that RealTime was a necessary cost. Therefore, WesternGeco can recover the costs of RealTime.

Third, ION disputes fees charged by court

reporters for the original and **one copy** of deposition transcripts ($56,653.85). ION argues that, without a showing of necessity, extra copies of deposition transcripts are not recoverable. However, other courts in this district have held that an original and one copy are a "basic cost" and a necessity. *Krohn v. David Powers Homes, Inc.*, CIV. A. H–07–3885, 2009 WL 2605284 (S.D. Tex. Aug. 21, 2009). "Whether a deposition or copy was necessarily obtained for use in the case is a factual determination to be made by the district court." *Fogleman v. ARAMCO (Arabian Am. Oil Co.)*, 920 F.2d 278, 285 (5th Cir. 1991). The Court finds that this cost is recoverable.

Fourth, ION contests deposition costs in fees for original and one copy of depositions provided on an expedited basis ($88,394.36). Expedited costs are not taxable unless prior court approval is obtained or the special character of the litigation necessitates expedited receipt of the transcript. Expedited costs seem minimal based on third party invoices (Doc. No. 579 p.7 n.5 ("Two expedition charges (totaling $2996.78) are itemized.")), and the complicated nature of this case necessitated expediting depositions. WesternGeco may recover for these costs.

Lastly, ION contests fees for rough draft charges ($1,968). WesternGeco has made no argument that it should recover for rough draft charges, so the requested amount should also be reduced by that amount ($1,968). Therefore, the costs of video synchronizing ($25,340) and rough drafts of depositions ($1,968), which totals $27,308, are unrecoverable as incidental costs.

2. Video Files of Depositions

WesternGeco requests costs for obtaining video files of depositions ($51,361.07). Video depositions are generally recoverable under § 1920(2) and the Court will allow it here.

3. Deposition Transcription Costs Related to Fugro

ION contests the costs that relate to WesternGeco's claims related to Fugro. WesternGeco took 51 depositions in this case and of those, 18 related directly to Fugro. WesternGeco claims it only seeks its own costs from ION, not Fugro's costs, (Doc. No 585 p. 9) so the Court will allow this recovery.

4. Trial Transcripts Related to Fugro

ION also contests trial transcription costs related to Fugro. ION estimates that Fugro's witness examinations account for about 15% of the transcript. WesternGeco claims that it has already removed Fugro time. The Court finds that WesternGeco may recover this cost since it does not include Fugro time.

D. Costs Relating to Witnesses

WesternGeco originally sought $9,864.49 in witness fees. After objections from ION, WesternGeco reduces the amount sought to $7,147.97, which ION does not dispute.

E. Costs Relating to Exemplification, Copies, and Printing

WesternGeco seeks $109,036.93 in costs relating to exemplification, copying and printing. ION disputes a portion of these charges. First, ION disputes $26,010.94 in costs for processing documents produced to ION, including charges for litigation support, creating databases, and creating TIFF images. WesternGeco does not make an argument for costs associated with litigation support or creating databases and has not met its burden to demonstrate these costs are necessary. WesternGeco may not recover the $26,010.94.

Second WesternGeco seeks to recover $28,002.54 in costs processing documents produced by ION, namely converting ION's documents into another format to make them searchable. ION did produce a large number of documents, but this cost was for the convenience of attorneys rather than a necessity. Therefore, WesternGeco may not recover the $28,002.54.

Third, WesternGeco requests $32,522 in costs of up to six copies of a variety of documents used for trial. WesternGeco does not segregate the costs nor make an argument for why it should recover these costs. ION estimates that the costs of copies for trial should be reduced by 15%, or $4,878.30, which the Court accepts.

Fourth, WesternGeco seeks $5,099 in costs for office supplies. These are incidentals not enumerated in the statute and therefore not recoverable.

F. Costs Relating to Court-Appointed Experts

WesternGeco requests $14,100 for the costs of the Court's appointed expert. ION argues that a portion of this cost should be attributable to Fugro, but WesternGeco states that this is the cost to WesternGeco, not Fugro's cost. Therefore, the Court finds this is an appropriate amount for WesternGeco to recover.

G. Conclusion

In conclusion, from WesternGeco's requested amount of $535,542.03, the following amounts should be subtracted because they are not recoverable costs:

- Less $3,138.25 for WesternGeco's withdrawn subpoena costs;
- Less $25,340 for video synchronization;
- Less $1,968 for rough drafts of transcripts;
- Less $2,716.52 for WesternGeco's reduction of costs related to witnesses;
- Less $26,010.94 in costs for processing documents produced to ION, including charges for litigation support, creating databases, and creating TIFF images;
- Less $28,002.54 in costs processing documents produced by ION, namely converting ION's documents into another format to make them searchable;
- Less $4,878.30 for multiple copies;

- Less $5,099 in costs for office supplies.

WesternGeco can recover costs in the amount of $438,388.48.

XIV. PERMANENT INJUNCTION; ONGOING ROYALTY

WesternGeco has filed a Motion for a Permanent Injunction or, in the Alternative, an Ongoing Royalty. (Doc. No. 558.) Related to this motion, ION has filed a Motion to Compel Production of Documents From WesternGeco. (Doc. No. 609.)

A. Motion to Compel

ION asks the Court to compel production of the Fugro license agreement ("Fugro license"), letters to ION's customers and potential customers seeking to begin negotiations to enter into additional licensing agreements, and all related documentation ("Licensing Documents"). ION claims this information is directly relevant to WesternGeco's request for a permanent injunction, the scope of any such injunction, and the terms and rate for any post-judgment royalty in lieu of an injunction. ION argues that WesternGeco's permanent injunction is premised on exclusivity, which may be undermined by its license to Fugro and offer to license the patents to ION's other customers.

WesternGeco has worked with Fugro to provide a redacted version of the agreement to ION. (Doc. No. 611, Ex. 14.) The Court finds that this is sufficient. Discovery after trial is the exception and

not the rule. ION has not shown the need for an exception. The Motion to Compel is denied.

B. Motion for a Permanent Injunction or, in the Alternative, an Ongoing Royalty (Doc. No. 558)

After the jury issued its verdict, ION's CEO announced ION's intention to "challenge the verdict," and stated that ION "ha[s] sufficient inventory of DigiFIN available to satisfy customer need." (Doc. No. 558, Ex. 1.) Media reports confirmed that, notwithstanding the verdict, "DigiFIN [ ] will remain available for sale." (Doc. No. 558, Ex. 3.) WesternGeco moves the Court to enter a permanent injunction or, in the alternative, award an ongoing royalty for the sales of ION's infringing products. (Doc. No. 558.) The Court finds that a permanent injunction is proper in this case.

1. Legal Standard

Courts have discretion to grant injunctive relief "in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." 35 U.S.C. § 283. By virtue of the Supreme Court's decision in *eBay*, a patentee must satisfy the well-established four-factor test for injunctive relief before a court may grant a permanent injunction:

> (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and

> defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.

eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 391 (2006).

2. Permanent Injunction

The Court finds that a permanent injunction is proper. ION stated multiple times to the Court that "[f]ollowing the Court's finding of infringement, ION immediately ceased selling DigiFIN." (Doc. No. 577 p. 22; Doc. No. 559 p. 24.) ION represented the same to the jury:

> Q. Sir, after you were found to infringe ... You didn't stop offering those products for sale, did you?
>
> A. In fact, we have no sold that product since then.

* * *

> Q. So when did you stop selling DigiFIN, sir?
>
> A. Well, I said stop selling—yea, we—when that happened, when the—when the Court made that ruling.
>
> Q. So you made a business decision that at that point, you would no longer sell DigiFIN?
>
> A. Yea. Until the case is solved—

resolved. We are not done yet.

(Trial Tr. 4491:15–4492:1.) However, ION's post trial accounting reveals that this assertion was false and ION did sell more DigiFIN after the Court's ruling and even after trial. The Court finds these misstatements deeply troubling.

ION claims that a September 2012 sale was not a sale because the contract for the infringing product occurred in March 2012. The Court cannot accept this thinly veiled excuse. It also appears that ION shipped DigiFIN abroad from the United States to ION Dubai, which continues to make sales. The Court need not delve into whether this conduct infringed § 271(f) at this time because the misleading statements and the September 2012 sale are enough for the Court to find that all four factors of *MercExchange, L.L.C.* weigh in favor of a permanent injunction. First, WesternGeco has suffered injury and may continue to suffer injury since ION has shown that it will continue to infringe. Second, since ION has not followed the Court's order, no remedy at law can fully compensate WesternGeco besides an injunction. Third, the Court does not find particular hardships to ION. Fourth, there is no evidence that an injunction will disserve the public. In fact, ION's disregard for the Court's order warrants a permanent injunction to support the public's interest in maintaining a strong patent system.

XV. CONCLUSION

For the reasons discussed above, the Court finds that:

1. ION's Partial Motion to Dismiss for Lack of Subject Matter Jurisdiction (Doc. No. 565) is **DENIED;**

2. ION's Rule 59 Motion for New Trial on Invalidity Under 35 U.S.C. §§ 102 and 103 (Doc. No. 550) is **DENIED;**

3. ION's Request for Findings and Conclusions on Enablement and, Alternatively, Motion for New Trial (Doc. No. 552) is **DENIED;**

4. ION's Renewed Motion for Judgment as a Matter of Law and Alternative Motion for New Trial Regarding Non–Infringement (Doc. No. 556) is **DENIED;**

5. ION's Motion for New Trial on Infringement Under 35 U.S.C. § 271(f)(2) (Doc. No. 557) is **DENIED;**

6. ION's Motion for JMOL and New Trial Due to Incorrect Claim Construction (Doc. No. 561) is **DENIED;**

7. ION's Motion for Entry of Findings and Conclusions of No Willful Infringement, Renewed Motion for Judgment as a Matter of Law of No Willful Infringement, and Alternative Motion for New Trial (Doc. No. 559) is **GRANTED;**

8. WesternGeco's Motion for Willfulness and Enhanced Damages (Doc. No. 560) is **DENIED;**

9. WesternGeco's Motion to Find this Case Exceptional Under Section 285 and for Attorneys' Fees (Doc. No. 554) is **DENIED;**

10. ION's Motion for JMOL, Motion for New Trial on Damages alternatively Motion for Remittitur (Doc. No. 562) is **DENIED;**

11. WesternGeco's Motion for Prejudgment Interest and Post–Discovery Damages (Doc. No. 553) is **GRANTED;**

a. Prejudgment interest will be calculated at the prime rate, compounded annually. ION is ordered submit calculations on the jury award within ten days.

b. Supplemental damages are proper for ION's sales after May 2011. WesternGeco is ordered to submit a motion regarding supplemental damages within 15 days.

12. WesternGeco's Motion for Costs (Doc. No. 555) is **GRANTED in part and DENIED in part;**

a. WesternGeco may recover costs in the amount of $438,388.48

13. ION's Motion to Compel Production of Documents From WesternGeco (Doc. No. 609) is **DENIED;**

14. WesternGeco's Motion for a Permanent Injunction or, in the Alternative, an Ongoing Royalty (Doc. No. 558) is **GRANTED.**

IT IS SO ORDERED.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
Houston Division.

WESTERNGECO L.L.C.,
Plaintiff,
v.
ION GEOPHYSICAL CORPORATION, et al.,
Defendants.

No. 4:09–CV–1827

July 16, 2012.

Attorneys and Law Firms

Lee L. Kaplan, Smyser Kaplan & Veselka, Houston, TX, Gregg Locascio, Kirkland & Ellis LLP, Washington, DC, Joyce W. Tam Lauren Sabol, Leslie M. Schmidt, Ryan Kane, Sarah K. Tsou, Simeon George Papacostas, Timothy K. Gilman, Kirkland & Ellis LLP, New York, NY, for Plaintiff.

David Lee Burgert, Jonathan M. Pierce, Ray Thomas Torgerson, Porter Hedges LLP, John M. Elsley, James M. Thompson, Royston Rayzor et al., Gordon T. Arnold, Jason Allan Saunders, Arnold & Knobloch, L.L.P., Houston, TX, for Defendants.

MEMORANDUM AND ORDER

KEITH P. ELLISON, District Judge.

In a pretrial conference held on Friday, July 13, 2012, the Court addressed a number of motions to exclude and motions in limine, resolving some and holding others over for trial. The Court now writes to resolve Defendants' Motions to Exclude the Expert Testimony of Raymond Sims (Doc. Nos. 250, 256), as well as certain Motions in Limine filed by the parties. (Doc. Nos. 384, 385, 386.)

I. MOTIONS TO EXCLUDE RAYMOND SIMS

Defendants ION Geophysical Corporation ("ION") and Fugro–Geoteam, Inc.; Fugro Geoteam AS; Fugro Norway Marine Services AS; Fugro, Inc.; Fugro (USA), Inc.; and Fugro Geoservices, Inc. (collectively, "Fugro") have filed motions seeking to exclude the expert testimony of Raymond Sims. (Doc. Nos. 350, 356.)Mr. Sims is the damages expert for Plaintiff WesternGeco L.L.C. ("WesternGeco" or "WG"). Defendants challenge Mr. Sims's damages analysis as to reasonable royalty damages and as to lost profits. After considering Defendants' motions, all responses thereto, oral arguments, and the applicable law, the Court concludes that Defendants' motions must be granted in part and denied in part.

Federal Rule of Evidence 702 provides that a qualified witness may offer opinion testimony if it will help the trier of fact to understand the evidence

or determine a fact in issue. Fed. R. Evid. 702. Courts are charged with the "gatekeeping function" of ensuring that expert testimony is both reliable and relevant. *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579, 589, 592–93, 597 (1993).Rule 702 requires that (1) expert testimony be based on sufficient facts or data, (2) it be the product of reliable principles and methods, and (3) those principles and methods be applied reliably to the facts of the case. Fed. R. Evid. 702.

In *Daubert,* the Supreme Court provided several nonexclusive factors to guide courts in evaluating the reliability of a methodology. Those factors include whether the theory can be and has been tested; whether the theory has been subjected to peer review and publication; the theory's known or potential rate of error; the existence and maintenance of standards and controls; and whether the theory is generally accepted. 509 U.S. at 593–94. Otherwise admissible expert testimony may be excluded under Rule 403. *Daubert,* 509 U.S. at 595; *see also* Fed. R. Evid. 403. The proponent of the expert testimony bears the burden of proving, by a preponderance of the evidence, "that the expert's findings and conclusions are based on the scientific method, and, therefore, are reliable." *Moore v. Ashland Chem. Inc.,* 151 F.3d 269, 276 (5th Cir. 1998) (en banc).

A. Reasonable Royalty

After considering Mr. Sims's reasonable royalty analysis, the Court is troubled by his application of the hypothetical license negotiation.

Originally listed as one of many reasonable royalty factors in *Georgia–Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), the hypothetical negotiation has evolved into an umbrella over all the other factors. *Powell v. Home Depot U.S.A.*, 663 F.3d 1221, 1239 (Fed. Cir .2012) (amount of the reasonable royalty that should be awarded upon a "reasoned hypothetical negotiation analysis"); *State Indus., Inc. v. Mor–Flo Indus., Inc.*, 883 F.2d 1573, 1580 (Fed. Cir. 1989) ("The determination of a reasonable royalty, however, is based not on the infringer's profit margin, but on what a willing licensor and licensee would bargain for at hypothetical negotiations on the date infringement started."). The Federal Circuit has indicated, at times, that the hypothetical negotiation approach is not strictly mandatory. *See Wordtech Sys. v. Integrated Network Solutions, Inc.* ., 609 F.3d 1308, 1319 (Fed. Cir. 2010) ("A reasonable royalty can be calculated from an established royalty, the infringer's profit projections for infringing sales, or a hypothetical negotiation between the patentee and infringer based on the factors in *Georgia–Pacific.*"). However, other Federal Circuit cases, including one *en banc* decision, have indicated that it is a mandatory approach. *See Fujifilm Corp. v. Benum*, 605 F.3d 1366, 1372 (Fed. Cir. 2011) ("To determine a reasonable royalty, a jury must find the royalty that would have been agreed to in a hypothetical negotiation between a willing licensee and willing licensors at the time infringement began."); *Rite–Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995) (en banc) ("The royalty may be based upon an established royalty, if there is one, or if not, upon the supposed result of hypothetical negotiations between

the plaintiff and defendant.") (citation omitted). In the present case, neither party appears to challenge the appropriateness or applicability of the hypothetical negotiation approach generally.

Turning to the law governing the principles of a hypothetical negotiation, the Federal Circuit has characterized the approach thus:

> The methodology encompasses fantasy and flexibility; fantasy because it requires a court to imagine what warring parties would have agreed to as willing negotiators; flexibility because it speaks of negotiations as of the time infringement began, yet permits and often requires a court to look to events and facts that occurred thereafter and that could not have been known to or predicted by the hypothesized negotiators.

Fromson v. Western Litho–Plate & Supply Co., 853 F.2d 1568, 1575 (Fed. Cir. 1988). In a hypothetical negotiation—as opposed to real-life license negotiations—a number of facts are deemed to be irrebuttably known. One is that the patent is valid, another is that the patent is infringed. *See, e.g., Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1325 (Fed. Cir. 2009), *cert. denied,*130 S. Ct. 1334 (2010) ("The hypothetical negotiation also assumes that the asserted patent claims are valid and infringed."); *Studiengesellschaft Kohle m.b.H. v. Dart Indus., Inc.*, 862 F.2d 1564, 1570 (Fed. Cir. 1988)

(citing trial court's recognition that, in hypothetical negotiations, there is a presumption of "an unquestionably valid patent").

Given that backdrop, the Court cannot assume, as WG's counsel has urged, that ION, in a hypothetical negotiation with WG, would have taken a risk on the infringement question and agreed to a huge, profit-eliminating (and even revenue eliminating) royalty obligation for itself. As a matter of law, no such risk can be taken in a hypothetical negotiation in which infringement is deemed known. With knowledge of validity and infringement, such a financially catastrophic agreement would have been totally unreasonable. The court in *Georgia–Pacific* acknowledged the proposition that negotiators in hypothetical negotiations must be deemed to act reasonably: "The primary inquiry, often complicated by secondary ones, is what the parties would have agreed upon, if both were reasonably trying to reach an agreement."*Georgia–Pacific,* 318 F. Supp. at 1121 (quoting *Faulkner v. Gibbs,* 199 F.2d 635, 639 (9th Cir. 1952) (internal quotation marks omitted). Even putting case law aside, any unreasonable negotiating approach must be rejected, since the ultimate goal is to arrive at what the statute terms a "reasonable royalty." Mr. Sims's methodology inherently arrives at an unreasonable result, and one to which no reasonable negotiator for ION could possibly have agreed. The Court therefore grants ION's motion to exclude Mr. Sims's testimony on reasonable royalty.

B. Lost Profits

The Court separately considers Mr. Sims's

analysis as to lost profits. To recover lost profits, a patentee must "show a reasonable probability that 'but for' the infringing activity, the patentee would have made the infringer's sales."*Crystal Semiconductor Corp. v. TriTech Microelectronics Int'l, Inc.*, 246 F.3d 1336, 1353 (Fed. Cir. 2001) (emphasis added). Considering whether such "but-for" causation exists "requires a reconstruction of the market, as it would have developed absent the infringing product, to determine what the patentee 'would ... have made.'" *Grain Processing Corp. v. Am. Maize-Prods. Co.*, 185 F.3d 1342, 1350 (Fed. Cir. 1999) (quoting *Grain Processing Corp. v. Am. Maize-Prods. Co.*, 979 F. Supp. 1233, 1236 (N.D. Ind. 1997)). In *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, the Sixth Circuit developed a four-factor test for determining causation. 575 F.2d 1152 (6th Cir. 1978). The test provides that a patentee seeking to recover lost profits on sales that the patentee would have made absent infringement most show: (1) demand for the patented product; (2) absence of acceptable noninfringing alternatives; (3) the patentee's manufacturing and marketing capability to exploit the demand; and (4) the amount of profit that the patentee would have made. *Id. at* 1156.

In considering WG's lost profits, Mr. Sims evaluated a number of surveys that ION's customers conducted using ION's DigiFIN product. He then reconstructed the market to determine whether WesternGeco would have gotten bids to perform those surveys absent ION's alleged infringement. Out of all surveys performed using DigiFIN, Mr. Sims identified a small subset which he believes WG would have been awarded in his reconstructed

market. Mr. Sims then proceeded to consider each of the four *Panduit* factors, ultimately concluding that there was a high demand for steerable streamers, that noninfringing alternatives would not have been acceptable as to this subset of surveys, and that WG had the manufacturing and marketing capability to exploit the demand for steerable streamers.

The Court has considered Defendants' objections to this methodology. Those include their contentions that Mr. Sims's focus on ION's customers' surveys was improper, that he failed adequately to reconstruct the market, that his analysis utilized unreliable data, and that some of the particular surveys included in his analysis could not have been won by WesternGeco, and therefore may not be included as lost profits.

After considering these arguments, the Court is persuaded that the issues raised by Defendants are properly addressed on cross-examination and through Defendants' own presentation of evidence. Mr. Sims applied the methodological approach that all parties agree is appropriate by utilizing the *Panduit* factors. In applying that approach, he went through each of the four factors with a detailed explanation of why he reached his particular conclusions. Although there are undoubtedly other approaches that Mr. Sims could have taken, Defendants have failed to persuade the Court that his methodology or approach was improper under the *Daubert* standard.

Notwithstanding the general admissibility of Mr. Sims's analysis, there is one survey that

concerns the Court from a *Daubert* standpoint. This survey, referred to by Fugro as the Lukoil/Vanco Ghana survey, was one of the surveys that Mr. Sims opined would have been won by WG in the reconstructed market. However, the manager of WesternGeco's CRM database has agreed that WG did not submit a tender for this survey. (Deposition of Samantha Graycon, Doc. No. 356–E at 103:15–104:17.) Without having submitted a tender on this survey, WG cannot legitimately argue—and it would be confusing and unhelpful to the jury to allow Mr. Sims to contend—that this survey would have been won by WG in a reconstructed market. Thus, while the Court finds that Defendants' other challenges are properly addressed at trial, it cannot allow Mr. Sims to testify that the Lukoil/Vanco Ghana survey should be considered a lost profit survey. As such, this survey may not be included in Mr. Sims's analysis at trial.

II. MOTIONS IN LIMINE

The Court addressed a handful of the parties' Motions in Limine during the pretrial conference held on Friday, July 13. The Court now considers those unresolved motions that the parties have indicated may present issues during voir dire or opening statements.

A. ION's Second Motion in Limine

In its second Motion in Limine, ION asks the Court to exclude "[a]ny reference to a presumption of validity of any patent-in-suit ."(Doc. No. 384 at 4.) ION contends that "reference to any presumption is not evidence but instead a procedural device without

any independent evidentiary value to be weighed against ION's evidence of invalidity."(*Id.*) The Court disagrees. It is beyond dispute that patents-in-suit must be presumed valid. 35 U.S.C. § 282(a). This presumption is inextricably linked to Defendants' burden to prove invalidity by clear and convincing evidence. The Court finds that the presumption of validity is not only appropriate information for the jury, but that it is helpful. ION's second Motion in Limine therefore is denied.

B. ION's Third Motion in Limine

In its third Motion in Limine, ION seeks to exclude "[a]ny mention of or reference to any indemnity obligation between ION and the Fugro Defendants."(Doc. No. 384 at 5.) ION bases this on the fact that WesternGeco has no standing to assert any right to indemnity on the part of the Fugro Defendants. WG has indicated that it does not intend to assert any rights on behalf of Fugro, but instead that it seeks to introduce the indemnity relationship as it is related to willfulness. Reference to the indemnity agreement for this purpose is not per se improper, and the Court will not exclude it in advance of trial. If it becomes clear during the course of trial that WesternGeco seeks to introduce this evidence for an improper purpose, the Court will consider excluding it at that time.

C. WesternGeco's First Motion in Limine

In its first Motion in Limine, WesternGeco seeks to preclude Defendants from disputing a number of facts that WG contends were resolved on summary judgment. (Doc. No. 386 at 1.) The Court

ruled on a portion of this motion during the pre-trial conference, and will hold other portions over until trial. However, the Court wishes to clarify certain issues prior to trial.

WesternGeco moves to preclude Defendants from disputing that the DigiFIN includes an active streamer positioning device ("ASPD") capable of controlling the vertical and horizontal position of a seismic streamer. Defendants respond that, because the Court's finding on this matter was made in the context of denying Defendants' motions for summary judgment, and not in the context of granting a motion in favor of WG, this issue remains a factual question for trial. The Court does not agree. When the Court considered this issue at the summary judgment phase, it was in the context of a two-fold inquiry. The first question was whether the DigiFIN includes an ASPD. (Doc. No. 365 at 91.) The second was whether the DigiFIN includes an array geometry tracking system.(*Id.*) In order to infringe the claim at issue, the Court explained, the DigiFIN had to have both of these components. (*Id.*)

The Court held that the DigiFIN *did* have the first component, an ASPD: "The Court is persuaded, in light of the foregoing evidence, that the DigiFIN includes an ASPD capable of controlling the vertical and horizontal position of a seismic streamer."(*Id* . at 92.)As to whether DigiFIN included the second component, an array geometry tracking system, the Court found that a genuine issue of material fact existed. (*Id.* at 93.). Thus, the Court has held, conclusively, that the DigiFIN includes an ASPD, and this issue may not be relitigated. This portion of

WesternGeco's first motion in limine is granted.

WesternGeco also moves for a ruling in limine that the term "predicting position" in claim 16 of the '017 patent does not "require something occurring at a future time."(Doc. No. 386 at 2.) As Defendants point out, the Court refused to construe this term and instead held that it has its ordinary meaning. (Transcript of December 15, 2011 Hearing, Doc. No. 395–B at 55:17–20.) This portion of WesternGeco's first Motion in Limine is denied.

D. WesternGeco's Fourth Motion in Limine

WesternGeco's fourth Motion in Limine seeks to exclude "prior art not relied upon as a basis for invalidity by Defendants' experts ."(Doc. No. 386 at 5.) At the pretrial conference on July 13, the Court held portions of this motion over for trial. However, as to the "Workman Reference," the Court writes to clarify that testimony about this patent will not be excluded. The Court considered the Workman Reference as a potential source of prior art in its most recent Memorandum and Order (Doc. No. 365 at 25–28), concluding that a factual issue remains with respect to the Workman reference as prior at. Allowing Defendants' experts to opine about the Workman Patent as it relates to the '520 Patent would not prejudice WesternGeco and would be helpful to the jury. WesternGeco's fourth Motion in Limine therefore is denied in part.

The remainder of WesternGeco's Motions in Limine need not be resolved prior to trial.

E. Fugro's First Motion in Limine

In its First Motion in Limine, Fugro asks the Court to preclude WG from eliciting fact or expert testimony, attempting to admit documentary evidence, or otherwise arguing before the jury that bodies of water that lie more than 12 miles outward from the U.S. coastline, the high seas (including the Chukchi Sea), or the United States' Exclusive Economic Zone (including the EEZ in the Gulf of Mexico) are U.S. territories or possessions. (Doc. No. 385 at 1–3.) Fugro also asks the Court to preclude WG from stating, implying, or attempting to admit evidence to prove the presence of a Fugro ship within 12 miles of the U.S. coastline constitutes infringement. (*Id.*)

WG has indicated that it agrees to this motion, in part. WG avers that it will not argue before the jury that bodies of water more than 12 miles outward of the coastline are U.S. territories. WG disagrees with the latter half of the motion in which Fugro seeks to preclude WG from stating or implying that certain activities constitute infringement. WG contends that these requests are premature and inappropriate, and that certain Fugro activities, including coming to port in the United States, are circumstantial evidence of infringement.

In ruling in favor of Defendants on a portion of their motion for summary judgment of non-infringement of WG's "Zajac" patent's system claims, the Court explained that WG's evidence of Defendants' surveys outside of the United States, evidence of their use of U.S. ports, and unsupported inferences that Defendants may have conducted tests

in the United States while they were in transit to the survey locations, did not give rise to a genuine issue of material fact. (Doc. No. 365 at 87.) On that basis, the Court concluded that neither Fugro nor ION made or used the patented system in the United States.

In light of the Court's rulings on summary judgment, WG may not state or imply to the jury that activities described in the Court's opinion—such as coming to port in the United States or conducting surveys outside of the United States—constitute infringement as to WG's method claims or the Zajac patent's "systems" claims. WG may discuss these activities to offer context as to how Fugro and ION operated, but testimony implying that these activities are themselves infringing is impermissible.

III. CONCLUSION

In light of the foregoing, the Court concludes that Defendants' Motions to Exclude the Expert Testimony of Raymond Sims must be **GRANTED IN PART** and **DENIED IN PART.**The parties' Motion in Limine must be **GRANTED IN PART** and **DENIED IN PART.**

IT IS SO ORDERED

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
Houston Division

WESTERNGECO L.L.C.,
Plaintiff,
v.
ION GEOPHYSICAL CORPORATION, et al.,
Defendants.

No. 4:09–cv–1827

June 29, 2012

MEMORANDUM AND ORDER

KEITH P. ELLISON, District Judge.

Now pending before the Court is a portion of Plaintiff's Motion for Summary Judgment of Willful Infringement of the '520 Patent (Doc. No. 276), in which Plaintiff WesternGeco L.L.C. ("Plaintiff" or "WesternGeco") moves for summary judgment of infringement under 35 U.S.C. § 271(f). After considering the parties' supplemental briefing and all responses thereto, the Court concludes that the portion of Plaintiff's motion now before the Court must be granted in part and denied in part.

I. BACKGROUND

In the Court's June 11, 2012 Memorandum and Order (Doc. No. 345), amended by its June 26, 2012 Amended Memorandum and Order (Doc. No. 365), the Court requested supplemental briefing from the parties on the mental state requirements

under 35 U.S.C. § 271(f). The parties, including WesternGeco; Defendant ION Geophysical Corporation ("ION"); and Defendants Fugro–Geoteam, Inc., Fugro Geoteam AS, Fugro Norway Marine Services AS, Fugro, Inc., Fugro (USA), Inc., and Fugro Geoservices, Inc. (collectively, "Fugro"), have submitted the requested supplemental briefing. The Court now considers the nature of these mental state requirements and their effect on Plaintiff's motion for summary judgment.

I. SECTION 271(f)(1)

A. Mental State Requirement

Section 271(f)(1) provides as follows:

> Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

35 U.S.C. § 271(f)(1). In its request for supplemental briefing, the Court asked the parties whether this language requires only that an infringer actively induce the combination of components, which are later combined in a manner that would infringe the

patent if the combination occurred within the United States. Conversely, the Court inquired as to whether the language instead requires that an infringer actively induce, and therefore intend, that the combination be done in such a way that the infringer knows would infringe the patent if it occurred in the United States.

After considering the parties' supplemental briefing, the Court concludes that the plain language of Section 271(f)(1) is unambiguous and can be read in only one way. The phrase "the combination of such components" immediately follows "to actively induce." The natural reading of this language is that the activity being induced is the combination of components. *Cf. Barnhart v. Thomas*, 540 U.S. 20, 26 ("[A] limiting clause or phrase ... should ordinarily be read as modifying only the noun or phrase that it immediately follows.") That a violation of this Section requires the assembly of the components "outside of the United States in a manner that would infringe the patent if such combination occurred in the United States" does not require that the infringer be aware of, or intend the infringement of, the patent. Rather, this requirement ensures that the conduct made unlawful by Section 271(f)(1) is only the exportation and the encouragement of assembly, which assembly would be an infringement if it were done in the United States.

The Court acknowledges that certain aspects of the legislative history might favor attributing a higher mental state requirement—specifically, knowledge that the assembly would be an

infringement—to Section 271(f)(1).[1] However, "[i]t is well established that 'when the statute's language is plain, the sole function of the courts—at least where the disposition required by the text is not absurd—is to enforce it according to its terms.' " *Lamie v. U.S. Tr.*, 540 U.S. 526, 534 (2004) (quoting *Hartford Underwriters Ins. Co. v. Union Planters Bank, N.A.*, 530 U.S. 1, 6 (2000)). The language here is plain, and the disposition required by the text is as reasonable as any other (and at least arguably, as WesternGeco urges, advisable as a policy matter). Thus, even if the legislative history is read as Defendants urge, it cannot counter the unambiguous statutory language. The Court also briefly notes that model patent jury instructions developed by the Federal Circuit Bar Association, which ION cites in its supplemental briefing, are inconsistent with this Court's reading of the statute.[2] Model Patent Jury Instructions, The Federal Circuit Bar Association (2012). The instructions misread the statute and are not persuasive authority on this issue.

---

[1] In enacting Section 271(f), Congress explained that a principal aim for the Section was "[t]o declare it to be patent infringement to supply components of an invention patented in the United States for final assembly abroad if the purpose of the shipment abroad is to circumvent a U.S. patent." S. Rep. No. 98–663, at 1 (1984).

[2] ION also cites the Model Patent Jury Instructions of the American Intellectual Property Law Association ("AIPLA"). Model Patent Jury Instructions, American Intellectual Property Law Association (2008). The Court reads AIPLA's model instructions on Section 271(f)(1) as tracing the statutory language and therefore as consistent with this Court's reading of the statute.

Finally, Defendants emphasize that Sections 271(f)(1) and (f)(2) are modeled after Sections 271(b) and (c). That is undeniably correct in some respects. For example, the Federal Circuit has recognized that "[t]he language of section 271(f) itself mimics the language of the indirect infringement provisions of Sections 271(b) and (c)." *Zoltek Corp. v. United States*, 672 F.3d 1309, 1334 (Fed. Cir. 2012). However, the conclusion that Defendants draw—that the mental state requirements under Section 271(f) therefore must be identical to those under Sections 271(b) and (c)—is flawed. The Federal Circuit has acknowledged that Section 271(f) is not identical to Sections 271(b) and (c). In *Waymark Corp. v. Porta Sys. Corp.*, the Federal Circuit placed Section 271(f)(2) on its own footing, distinguishing it from Section 271(c) by holding that, under Section 271(f)(2), there need not be any proof of a completed assembly abroad. 245 F.3d 1364, 1367–68. The Federal Circuit thus has begun to forge a new path for the statutory construction of Section 271(f), distinguishing it from other provisions from which its language was drawn. In determining the applicable mental state, the requirements of Section 271(f) are not presumptively identical to those of Sections 271(b) and (c). The Court concludes that Section 271(f)(1) requires that an alleged infringer (1) actively induce the combination of the components in question; and (2) that the combination of those components would infringe the patent if such combination occurred within the United States.

B. Analysis

There is little question, as discussed in the Court's prior Memorandum and Order, that WesternGeco has proven the first requirement of Section 271(f)(1)—that Defendants actively induced the combination of the components at issue here, the DigiFIN and the Lateral Controller. This intent to induce combination is shown throughout instruction manuals that ION and Fugro issued and distributed, which instruct end users to use the steering modes of the '520 patent. (Doc. No. 365 at 74.) [3] The undisputed record evidence proves that Defendants supply or cause to be supplied the DigiFIN and Lateral Controller components with the intent that these components will be combined outside of the United States. (Doc. No. 365 at 73.)

The remaining requirement is that the components be combined in a manner that would infringe the patent if such combination occurred

---

[3] In its Amended Memorandum and Order, the Court explained as follows:

> As indicated by ION's Lateral Controller User's Manual, DigiFIN operates in its Even Separation Mode (the patented "streamer separation mode") by default. (Doc. No. 276–11 at ION015142, ION015156.) As noted above, Fugro's Project Procedure Navigation, a document which "sets out how to start, execute, and end a marine seismic acquisition project," states that '[d]eployment reflects a DigiFin spread for maintaining even streamer separation and will be the most common spread deployed."(Doc. No. 276–29 at FGRPROD000109764.) These documents make clear that DigiFIN and the lateral controllers are designed and used with steering modes, including the infringing even separation mode.

(Doc. No. 365 at 74.)

within the United States. The Court has ruled on this element already. The only question under Section 271(f)(1) for which the Court sought an answer in the parties' supplemental briefing was "whether both ION and Fugro's supply/cause of the supply of components in such a manner as to encourage their combination—*which ultimately[would have] infringed on WesternGeco's patent [if combined in the United States]*—is sufficient to meet the mental state requirement of Section 271(f)(1)."[4] (Doc. No. 365 at 73 (emphasis

---

[4] WesternGeco did not move for, and the Court therefore could not grant, summary judgment of infringement under Section 271(a). (The Court did grant summary judgment for WesternGeco under Section 271(a) in its original Memorandum and Order. (Doc. No. 345 at 64.) However, as ION pointed out in its Motion for Reconsideration (Doc. No. 352 at 5–7), this grant of summary judgment was improper, both because WesternGeco did not move for it, and because the parties' summary judgment briefing did not address whether Defendants infringed the '520 patent under Section 271(a)'s "makes, uses, offers to sell, or sells" requirement for infringement. The Court therefore amended its Memorandum and Order to remove the language granting summary judgment for WesternGeco on the '520 patent under 271(a). (Doc. No. 365 at 64.).) However, the Court did find that the components in question have been combined outside of the United States in manner that would infringe the '520 patent if the combination had been done in the United States. The Court explained, for example, that "ION's Accused Products can, at a minimum, operate in the infringing streamer separation mode."(Doc. No. 365 at 64.) The Court also found that "Fugro used DigiFINs to accomplish the infringing streamer separation mode."(*Id.* at 73.) The Court does not read Section 271(f)(1)'s requirement that the components be combined outside of the United States

added).) The Court answered that question above. As the Court now has held that Plaintiff's evidence satisfies both of Section 271(f)(1)'s requirements, summary judgment must be granted under this Section.

II. SECTION 271(f)(2)

A. Mental State Requirement

Section 271(f)(2) provides as follows:

> Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred

---

"in a manner that would infringe the patent if such combination occurred within the United States" to require a plaintiff to submit proof on the "makes, uses, offers to sell, or sells" requirement. Thus, summary judgment is appropriate under Section 271(f)(1) if the combination of components is induced, and if that combination would be infringing in the United States; it does not require an additional finding that a defendant committed an act of infringement (such as made, sold, or offered for sale).

> within the United States, shall be liable as an infringer.

35 U.S.C. § 271(f)(2). As with Section 271(f)(1), the Court finds that the language in Section 271(f)(2) is unambiguous as to what it requires. Like Section 271(f)(1), 271(f)(2) requires that the accused infringer intend that the supplied component(s) be combined. 35 U.S.C. § 271(f)(2) ("Whoever without authority supplies or causes to be supplied ... any component of a patented invention *...intending that such component will be combined....* " (emphasis added)). However, Section 271(f)(2) imposes an additional constraint absent from Section 271(f)(1), requiring that the accused infringer supply such component "knowing that such component is ... especially made or especially adapted for use in the invention." *Id.* This language parallels the knowledge requirement in 35 U.S.C. § 271(c), which provides that the accused infringer must "know[ ] the [component] to be especially made or especially adapted for use in an infringement of such patent ." 35 U.S.C. § 271(c). Although the plain language of Section 271(f)(2) makes the consideration of legislative history unnecessary, the legislative history of Section 271(f)(2) only confirms what is clear from the plain language of the statute. S. Rep. 98–663 at 7 ("Paragraph [ ](2), like existing subsection 271(c), requires the infringer to have knowledge that the component is especially made or adapted.").

Because the mental state required for infringement under Section 271(f)(2) is equivalent to that required under Section 271(c), the Court looks to the Supreme Court's analysis Section 271(c) for

guidance. In *Aro Manufacturing Co. v. Convertible Top Replacement Co., Inc.*, 377 U.S. 476, 488 (1964), a majority of the Supreme Court held that Section 271(c)"require[s] a showing that the alleged contributory infringer knew that the combination for which his component was especially designed was both patented and infringing."The Court therefore concludes that Section 271(f)(2) requires a plaintiff to prove that the defendant (1) intended the combination of components; (2) knew that the combination he intended was patented; and (3) knew that the combination he intended would be infringing if it occurred in the United States.

B. Analysis

As noted above, WesternGeco has proven that Defendants intended the combination of the components at issue. However, even assuming WesternGeco has proven the second element under Section 271(f)(2)—that Defendants knew that the combination at issue was patented—WesternGeco has failed to meet its burden of proving the third element, that Defendants *knew* that the combination was infringing. First, WesternGeco points to ION's response to Interrogatory Number 13, in which ION admits that it became aware of the patents-in-suit "around the date of the issuance for each WesternGeco Patent–in–Suit."(Doc. No. 276–32 at 6.) ION then says that it "did not undertake an investigation of potential infringement or of the [patents'] enforceability and/or validity until after WesternGeco first accused ION Geophysical of infringement .... ION Geophysical has sought opinions of counsel regarding" the WesternGeco

patents.(*Id.*) WesternGeco then points to an email from apparent Fugro employee Svein Dale to ION marketing specialist, John Thompson, which asks Mr. Thompson what ION's position is "on this WG patent in relation to DigiFIN."(Doc. No. 276–33.) Next, WesternGeco highlights the response from Mr. Thompson to Mr. Dale, in which Mr. Thomson writes:

> "I know that this was very thoroughly researched during the early days of the DigiFIN development and was one of our considerations before continuing with the project. The short answer is that we have no concerns over the [WesternGeco] patent, but I have passed your question on to our internal patent attorney to get you the official answer."

(Doc. No. 276–35.) WesternGeco also cites email between presumed ION employee Gaetan Mellier and Mr. Dale, which says "The patent I sent you was not the right one. You will find the good one attached ."(Doc. No. 276–34.) Finally, WesternGeco cites to a Fugro quarterly report which states that "Western Geco [sic] has indicated to StatoilHydro that there is a branch of IP rights related to the use of DigiFin technology. We have not been contacted by Western Geco [sic] on the issue, but we are investigating potential conflicts in cooperation with ION and StatoilHydro."(Doc. No. 276–43 at FGRPROD000117285.)

Ultimately, the very most these documents

prove is that Defendants were considering the possibility of infringement; notably, a number of the documents fail to specify to which WesternGeco patent they refer. Moreover, Defendants have pointed to the opinion of ION's Vice President of Engineering, Mr. Lambert, who reviewed the '520 patent's claims and specification and came to the conclusion that ION's towed streamer system did not perform or contain each of the required limitations of the '520 patent's claims. (Doc. No. 298–D, Lambert Decl. ¶¶ 9–11.) [5] Thus, though Defendants apparently were aware of—and arguably concerned about the possibility of infringing—WesternGeco's patents, the record evidence does not meet the high burden of demonstrating knowledge of infringement of the '520 patent.

---

[5] WesternGeco urges that Defendants' reliance on Mr. Lambert's opinion is improper, as it violates WesternGeco's understanding of a requirement, imposed by this Court in its Scheduling Order, that Defendants disclose any plan to rely on an opinion of counsel to defend themselves by January 13, 2012. (Doc. No. 166–2 at 3.) Even if Defendants failed to comply with the scheduling order in disclosing such information, the Court concludes that it would be improper to ignore this evidence and grant summary judgment when the evidence, though arguably noncompliant with the Court's requirements, helps create a genuine issue of material fact. In any event, though, the Court notes that WesternGeco's summary judgment evidence, even if it were uncontroverted, would be insufficient to support summary judgment under Section 271(f)(2).

III. CONCLUSION

For the foregoing reasons, the remainder of WesternGeco's Motion for Summary Judgment of Willful Infringement of the '520 Patent (Doc. No. 276) must be **GRANTED IN PART** and **DENIED IN PART.** Summary judgment must be **GRANTED** under Section 271(f)(1). Because a genuine issue of material fact remains as to Defendants' mental state, summary judgment under Section 271(f)(2) must be **DENIED.**

IT IS SO ORDERED.

IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF TEXAS HOUSTON DIVISION

WESTERNGECO L.L.C.,
Plaintiff,

v.

ION GEOPHYSICAL CORPORATION,
Defendant.

Civil Action No.4:09-CV-01827

Judge Keith P. Ellison

Jury Trial Demanded

FINAL JUDGMENT

Based on the Court's Orders and the jury's verdict, the Court Enters FINAL JUDGMENT in favor of Plaintiff WesternGeco L.L.C. and against Defendant ION Geophysical Corporation as follows:

Jury Verdict:	$105,900,00.00
Supplemental Damages:	$9,408,118.41
Pre-judgment interest (through April 22, 2014):	$10,925,167.00
Costs:	$438,388.48
Polarcus Credit:	($3,000,000.00)
FINAL JUDGMENT	**$123,671,673.89**

WesternGeco is entitled to an additional $10,968 in pre-judgment interest for each day between April 22, 2014 and the date of Final Judgment.

$10,968 per day x 15 days = $164,520;

Post-judgment interest will accrue pursuant to statute in effect on date of entry.

Defendant ION is denied all relief on its Counter-claims and affirmative defenses and shall take nothing.

Further, Defendant ION Geophysical Corporation, its servants, agents, and anyone acting in concert with it (collectively, "ION"), are enjoined from supplying in or from the United States the DigiFIN product or any parts unique to DigiFIN product, or any instrumentality no more than colorably different from any of these products or parts, for combination outside of the United States. This injunction shall remain in force until all of the claims found infringed in the patents in suit are found invalid, unenforceable or expire, or this injuction is reversed or vacated or modified on appeal or by this Court. This Court retains jurisdiction over enforcement of this injunction and its terms.

This is a Final Judgment pursuant to Fed. R. Civ. P. 58.

May 7, 2014
Date

/s/ Keith P. Ellison
Keith P. Ellison
United States District Judge

IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF TEXAS HOUSTON DIVISION

WESTERNGECO L.L.C.,
Plaintiff,

v.

ION GEOPHYSICAL CORPORATION,
Defendant.

Civil Action No.4:09-CV-01827

Judge Keith P. Ellison

VERDICT FORM

QUESTION 1 - INFRINGEMENT UNDER 35 U.S.C. § 271(F)(1)

Did WesternGeco prove by a preponderance of the evidence that ION infringed any of the patent claims listed below pursuant to Section 271(f)(1)?

Answer "Yes" or "No" for each of the listed claims in the spaces provided below.

'520 Patent:

Claim 19: **YES**

Claim 23: **YES**

'967 Patent:

Claim 15 **YES**

'607 Patent:

Claim 15 YES

'038 Patent:

Claim 14 YES

QUESTION 2 - INFRINGEMENT UNDER 35 U.S.C. § 271(F)(2)

Did WesternGeco prove by a preponderance of the evidence that ION infringed any of the patent claims listed below pursuant to Section 271(f)(2)?

Answer "Yes" or "No" for each of the listed claims in the spaces provided.

'520 Patent:

Claim 18: YES

Claim 19: YES

Claim 23: YES

'967 Patent:

Claim 15 YES

'607 Patent:

Claim 15 YES

'038 Patent:

Claim 14 YES

QUESTION 3 - INVALIDITY

(A) '520 PATENT

Anticipation of the '520 Patent

Did ION prove by clear and convincing evidence that U.S. Patent No. 5,709,472 ("Workman Patent") anticipates Claim 18 of the '520 Patent?

Answer "Yes" or "No" in the space provided: NO

Non-enablement of the '520 Patent

Did ION prove by clear and convincing evidence any of the following claims of the '520 patent are ***not*** enabled?

Answer "Yes" or "No" for each of the listed claims in the spaces provided:

Claim 18 of the '520 Patent NO

Claim 19 of the '520 Patent NO

Claim 23 of the '520 Patent NO

(B) '967 PATENT

Obviousness of the '967 Patent

Did ION prove by clear and convincing evidence that that the combination of U.S. Patent No. 5,790,472 ("Workman Patent") and International Application WO 98/28536 ("'636 Patent Publication") renders Claim 15 of the '967 Patent obvious?

Answer "Yes" or "No" in the space provided: NO

Non-enablement of the '967 Patent

Did ION prove by clear and convincing evidence that Claim 15 of the '967 Patent is ***not*** enabled?

Answer "Yes" or "No" in the space provided: NO

(C) '607 PATENT

Anticipation of the '607 Patent

Did ION prove by clear and convincing evidence that U.S. Patent No. 5,790,472 (the "Workman Patent") anticipates Claim 15 of the '607 Patent?

Answer "Yes" or "No" in the space provided: NO

Obviousness of the '607 Patent

Did ION prove by clear and convincing evidence that the combination of U.S. Patent No. 5,790,472 (referred to as the "Workman Patent") and International Application WO 98/28636 (referred to as the "'636 Patent Publication") renders Claim 15 of the '607 Patent obvious?

Answer "Yes" or "No" in the space provided: NO

Non-Enablement of the '607 Patent

Did ION prove by clear and convincing evidence that Claim 15 of the '607 Patent is ***not*** enabled?

Answer "Yes" or "No" in the space provided: NO

(D) '038 PATENT

Anticipation of the '038 Patent

Did ION prove by clear and convincing evidence that International Application WO 00/20895 ("Hillesund '895 Application) anticipates Claim 14 of the '038 patent?

Answer "Yes" or "No" in the space provided: NO

Obviousness of the '038 patent

Did ION prove by a clear and convincing evidence that International Application WO 00/20895 ("Hillesund 'Application) renders Claim 14 of the '038 patent obvious?

Answer "Yes" or "No" in the space provided: NO

Non-Enablement of the '038 Patent

Did ION prove by clear and convincing evidence that Claim 14 of the '038 Patent is ***not*** enabled?

Answer "Yes" or "No" in the space provided: NO

QUESTION 4 - WILLFUL INFRINGEMENT

Did WesternGeco prove by clear and convincing evidence that ION actually knew, or it was so obvious that ION should have known, that its actions constituted infringement of a valid patent claim?

Answer "Yes" or "No" in the space provided:

YES

QUESTION 5 - DAMAGES

If any claim is infringed and not invalid, what damages do you find WesternGeco has proven by a preponderance of the evidence that it suffered as a result of ION's infringement? Any amount found should be written in dollars and cents.

Lost profits: **$93,400,000.**

Reasonable Royalty: **$12,500,000.**

For the Jury:

By: _____
Foreperson

Date: 16 AUGUST 2012

Note: This order is nonprecedential.

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

WESTERNGECO L.L.C.,
Plaintiff-Cross-Appellant

v.

ION GEOPHYSICAL CORPORATION,
Defendant-Appellant

2013-1527, 2014-1121, -1526, -1528

Appeals from the United Stated District Court for the Southern District of Texas in No. 4:09-cv-01827, Judge Keith P. Ellison.

ON PETITION FOR REHEARING EN BANC

Before PROST, *Chief Judge*, NEWMAN, LOURIE, DYK, MOORE, O'MALLEY, REYNA, WALLACH, TARANTO, CHEN, HUGHES, and STOLL, *Circuit Judges*.

WALLACH, *Circuit Judge*, with whom NEWMAN and REYNA, *Circuit Judges*, join, dissents from the denial of the petition for rehearing en banc.

PER CURIAM.

ORDER

A petition for rehearing en banc was filed by cross-appellant WenternGeco L.L.C., and a response thereto was invited by the court and filed by appellant ION Geophysical Corporation. The petition for rehearing and response were fisrt referred to the panel that heard the appeal, and thereafter, to the circuit judges who are in regular active service. A poll was requested, taken, and failed.

Upon consideration thereof,

IT IS ORDERED THAT:

The petition for panel rehearing is denied.

The petition for rehearing en banc is denied.

The mandate of the court will issue on November 6, 2015.

FOR THE COURT

October 30, 2015
Date

/s/ Daniel E. O'Toole
Daniel E. O'Toole
Clerk of Court

Note: This order is nonprecedential.

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

WESTERNGECO L.L.C.,
Plaintiff-Cross-Appellant

v.

ION GEOPHYSICAL CORPORATION,
Defendant-Appellant

2013-1527, 2014-1121, -1526, -1528

Appeals from the United Stated District Court for the Southern District of Texas in No. 4:09-cv-01827, Judge Keith P. Ellison.

Wallach, *Circuit Judge*, with whom Newman and Reyna, *Circuit Judges*, join, dissenting from the denial of the petition for rehearing en banc.

For the reasons articulated in my dissent from the panel opinion, I dissent from the denial of the petition for rehearing en banc. *See WesternGeco L.L.C. v. ION Geophysical Corp.*, 791 F.3d 13401354-64 (Fed. Cir. 2015) (Wallach, J., dissenting-in-part).

In addition, an amicus brief submitted in support of the petition for rehearing en banc raised the issue

of whether extension of the presumption against extraterritoriality to damages, in the manner done by the panel in this case, is at odds with the longstanding and analogous "predicate act" doctrine in the copyright context. The predicate act doctrine holds that a copyright owner "is entitled to recover damages flowing from the exploitation abroad of . . . domestic acts of infringement." *L.A. News Serv. v. Reuters Television Int'l, Ltd.*, 149 F.3d 987, 991–92 (9th Cir. 1998) (tracing the predicate act doctrine to Judge Learned Hand's opinion in *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939), *aff'd*, 309 U.S. 390 (1940)); *see also Tire Eng'g & Distrib., LLC v. Shandong Linglong Rubber Co.*, 682 F.3d 292, 306 (4th Cir. 2012) ("We adopt the predicate-act doctrine, which posits that a plaintiff may collect damages from foreign violations of the Copyright Act so long as the foreign conduct stems from a domestic infringement."); *Update Art, Inc. v. Modiin Publ'g, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988) ("It is well established that copyright laws generally do not have extraterritorial application. There is an exception—when the type of infringement permits further reproduction abroad—such as the unauthorized manufacture of copyrighted material in the United States.").

In this case, WesternGeco's damages flowed from the exploitation abroad of domestic acts of patent infringement under § 271(f). The court's denial of rehearing en banc unfortunately prevents consideration of the predicate act doctrine, which is of particular import given "the historic kinship between patent law and copyright law." *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417,

439 (1984). For this reason, and for other reasons already explained, I respectfully dissent.

RECORD AND BRIEFS.

No. 16-1011

FILED
APR 19 2017

IN THE

Supreme Court of the United States

WESTERNGECO L.L.C.,

Petitioner,

v.

ION GEOPHYSICAL CORPORATION,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF IN OPPOSITION

JUSTIN M. BARNES
TROUTMAN SANDERS LLP
11682 El Camino Real,
Suite 400
San Diego, California 92130
(858) 509-6000

DAVID J. HEALEY
Counsel of Record
BRIAN G. STRAND
BAILEY K. HARRIS
FISH & RICHARDSON P.C.
1221 McKinney Street,
Suite 2800
Houston, Texas 77010
(713) 654-5300
healey@fr.com

Attorneys for Respondent

April 19, 2017

272668

COUNSEL PRESS
(800) 274-3321 • (800) 359-6859

Library of Congress
Law Library

QUESTION PRESENTED REPHRASED

1.

Whether this Court should overrule *Microsoft v. AT&T* and eliminate the presumption against extraterritoriality so that infringers are subject to damages under § 284 based on non-infringing foreign use by third parties.

In *Microsoft v. AT&T*, 550 U.S. 437, 454-445 (2007), this Court held that the presumption against territoriality applied to all laws, and especially the patent laws, including the interpretation of 35 U.S.C. § 271(f). This statute was enacted to "plug a hole" in liability in the statute governing direct infringement (§ 271(a)); it was enacted after a defendant successfully avoided infringement by exporting non-infringing components of an infringing device in three sub-assemblies that could be easily connected upon receipt. *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 526-528 (1972). Since § 271(a) defines direct infringement as "whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent...," shipping non-infringing components to a foreign customer who assembles them overseas was outside of the statute. Section 271(f) puts the exporter of non-infringing components that can be combined into an infringing device on the same footing as an exporter of the infringing device itself. However, unlike other indirect infringement statutes, it eliminates the requirement of direct infringement: that is, proof of assembly or use abroad is not part of the cause of action. *See generally*

Limelight Networks, Inc. v. Akamai Techs., Inc., 134 S. Ct. 2111, 2118 (2014) (Proof of assembly or use is not required for 271(f) liability). Instead, infringement under § 271(f) is complete upon export from the United States. *See, e.g., id; see also Waymark Corp. v. Porta Systems Corp.*, 245 F.3d 1364, 1368 (Fed. Cir. 2001) (holding that 271(f)(2) does not even require actual assembly abroad of the components).

Section 284 is the damages statute for infringement under all sections of 271. Section 284 provides in pertinent part "the court shall award the claimant damages adequate to compensate for ***the infringement***, but in no event less than a reasonable royalty for the ***use made of the invention by the infringer***..." 35 U.S.C. § 284 (emphasis added). See also *VirnetX v. Cisco Systems, Inc.*, 767 F.3d 1308, 1326 (Fed. Cir. 2014) (explaining that damages for a multi-function device must be apportioned among its features and limited to the infringement). Since for § 271(f) the act of infringement is complete upon export, damages must be based on the export from the United States (e.g., the act of infringement). By virtue of § 271(f), ION is the infringer and the use of the invention by ION is export of the otherwise non-infringing components. Moreover, the presumption against extraterritoriality limits infringement and damages for use by the infringer to acts in the United States; it does not allow for liability based on downstream uses by foreign third parties overseas, because foreign use is not an act of infringement. The Federal Circuit's opinion below properly so held.

WesternGeco's "question presented" is better rephrased as whether the well-established presumption against extraterritoriality should be eliminated, so that

any damages worldwide traceable in any way back to infringement in the United States are also recoverable under § 284. WesternGeco is in fact asking this Court to overrule its prior decision in *Microsoft v. AT&T*, and to eliminate the presumption against extraterritorial application of United States patent law as to both § 271(f) and § 284. Such a change in the law would not be the narrow change WesternGeco implies, nor would it be consistent with the wording of Section 284, which limits damages to the act of infringement. Instead, it would transform United States patents into worldwide patents.

CORPORATE DISCLOSURE STATEMENT

All parties are listed in the caption.

ION Geophysical Corporation does not have a parent corporation and no publicly traded company owns 10% or more of its stock.

TABLE OF CONTENTS

Page

QUESTION PRESENTED REPHRASED i

CORPORATE DISCLOSURE STATEMENT iv

TABLE OF CONTENTS v

TABLE OF CITED AUTHORITIES vii

INTRODUCTION 1

FACTUAL STATEMENT 6

REASONS TO DENY THE PETITION 12

I. The Second Certiorari Petition Is Improper ... 12

II. The Federal Circuit's Opinion Is Consistent with Both This Court's and Its Own Precedent 15

III. Allowing Damages for Wholly Extraterritorial Acts under § 271(f) Would Open the Door for Worldwide Damages under Other Sections of § 271 21

IV. This Fact-Driven Case Is Not a Good Vehicle for the Court to Review on Lost Profits 22

V. There Is No Circuit Split on the Predicate Act Doctrine and It Has Been Waived in any Event 23

Table of Contents

Page

VI. Lost Profits Were Unavailable Here for Additional Reasons Regardless of Extraterritoriality, So This Case Would Not Be Resolved in This Court 24

VII. The Lost Profits Issue Could Be Rendered Moot by PTAB Findings of Invalidity 26

VIII. The Federal Circuit Opinion Serves the Need for Comity in International Law.....27

CONCLUSION 28

TABLE OF CITED AUTHORITIES

Page

CASES:

BIC Leisure Prods., Inc. v. Windsurfing Int'l, Inc.,
1 F.3d 1214 (Fed. Cir. 1993) 24-25

Brown v. Duchesne,
60 U.S. 183 (1857) 17, 20, 27

Cardiac Pacemakers v. St. Jude,
576 F.3d 1348 (Fed. Cir. 2009), *cert. denied*,
558 U.S. 1115 (2010) 15, 16, 17, 21

Carnegie Mellon University v.
Marvell Technology Group Ltd.,
807 F.3d 1283 (Fed. Cir. 2015) 19, 21, 23

Clark v. Chrysler Corp.,
436 F.3d 594 (6th Cir. 2006) 13

Crystal Semiconductor v.
Tritech Microelectronics,
246 F.3d 1336 (Fed. Cir. 2001) 25

Deepsouth Packing Co. v. Laitram Corp.,
406 U.S. 518 (1972) . . . . . i, 5, 16

Escalera v. Coombe,
852 F.2d 45 (2d Cir. 1988) 13

Fresenius USA, Inc. v. Baxter Intern., Inc.,
721 F.3d 1330 (2013) 27

Cited Authorities

Page

Genentech, Inc. v. Chiron Corp.,
112 F.3d 495 (Fed. Cir. 1997) 26

General Motors v. Devex,
461 U.S. 648 (1983).....18

Halo Electronics v. Pulse Electronics,
136 S. Ct. 1923 (2016).....2, 10

Hermann v. Brownell,
274 F.2d 842 (9th Cir. 1960), *cert. denied*,
364 U.S. 821 (1960).....13

Hyatt v. Heckler,
807 F.2d 376 (4th Cir. 1986).....13

In re Kubin,
561 F.3d 1351 (Fed. Cir. 2009) 26

Kotler v. Am. Tobacco Co.,
981 F.2d 7 (1st Cir. 1992).....13

Leo Pharma. Prods. Ltd. v. Rea,
726 F.3d 1346 (Fed. Cir. 2013) 26

Life Technologies v. Promega,
137 S. Ct. 734 (2017) 16-17

Limelight Networks, Inc. v. Akamai Techs., Inc.,
134 S. Ct. 2111 (2014) .....ii, 16

Cited Authorities

Page

Microsoft v. AT&T,
550 U.S. 437 (2007) ..... *passim*

Panduit Corp. v. Stahlin Bros. Fibre Works,
575 F.2d 1152 (6th Cir. 1978) 24

Petroleum Geo-Services, Inc., v. WesternGeco L.L.C.,
Case IPR2014-00687, Paper No. 100
(PTAB 2015) 11, 26

Petroleum Geo-Services, Inc., v. WesternGeco L.L.C.,
Case IPR2014-00688, Paper No. 101
(PTAB 2015) 11, 26

Petroleum Geo-Services, Inc., v. WesternGeco L.L.C.,
Case IPR2014-00689, Paper No. 101
(PTAB 2015) 11, 26

Power Integrations, Inc. v. Fairchild Semiconductor, Inc.,
711 F.3d 1348 (2013), *cert. denied*,
134 S. Ct. 900 (2014) ..... *passim*

Promega Corp. v. Life Technologies Corp.,
773 F.3d 1338 (Fed. Cir. 2014), *reversed*,
137 S.Ct. 734 (2017) 22

Cited Authorities

Page

VirtualAgility Inc. v. Salesforce.com, Inc.,
759 F.3d 1307 (Fed. Cir. 2014).....11, 26

Wood v. Milyard,
132 S. Ct. 1826 (2012).....24

STATUTES & OTHER AUTHORITIES:

35 U.S.C. § 271.....21

35 U.S.C. § 271(a)..... *passim*

35 U.S.C. § 271(b).....9, 17

35 U.S.C. § 271(c).....9, 17

35 U.S.C. § 271(f)..... *passim*

35 U.S.C. § 271(f)(1).....8, 9, 17, 22

35 U.S.C. § 271(f)(2).....6, 8, 9

35 U.S.C. § 284..... *passim*

INTRODUCTION

This is WesternGeco's second certiorari petition in this same litigation based on the issue of damages for overseas use by foreign entities. The Federal Circuit vacated the district court's award of lost profits based on ION's overseas customers' use of WesternGeco's United States patent. The Federal Circuit held that there can be no damages for foreign entities' extraterritorial use of an invention because United States patents do not apply world-wide. In both its first, and now its second, petition for certiorari from this same holding by the Federal Circuit, WesternGeco seeks to reinstate the lost profits portion of damages for use abroad by foreign actors.

ION appealed from the district court's award of lost profits. Those lost profits were based on its foreign customers combining components abroad, including those ION exported from the United States, to configure seismic survey vessels, and then using those vessels to perform surveys on the high seas. It was undisputed that ION's component, a "DigiFIN," did not itself infringe any asserted patent. However, the jury found the DigiFIN had no substantial non-infringing use other than to be combined with marine streamers, a vessel, software, and survey equipment, where that combination would have infringed if assembled in the United States. The jury awarded reasonable royalties for the DigiFINs exported, and then lost profits based on several marine surveys WesternGeco lost in competition with an ION customer. ION, among other issues, challenged (on two separate and independent grounds) the award of lost profits. The first ground was based on the extraterritorial limits of United States patents, the issue WesternGeco challenges here.

The second ground was based on the lack of any "competition" between the parties as that term was explicitly described in the jury instructions. ION's foreign customers compete abroad with WesternGeco's marine survey business. Since ION does not sell surveys, and WesternGeco does not sell components, they are not competitors as described in the jury instructions. Accordingly, there is insufficient evidence as a matter of law to support the jury's verdict for lost profits on the basis of lost sales between competitors.

In its July 2, 2015 opinion, Pet. App. 23a, the Federal Circuit reversed and vacated the lost profits award, holding use abroad of a patented invention is not infringement of a United States patent. Pet. App. 45a. Because the Federal Circuit reversed on extraterritoriality, it did not reach ION's second argument, that no lost profits could be awarded under the jury charge because the charge (and law) only permits lost profits damages when the parties are competing in the same market.

WesternGeco petitioned for rehearing *en banc*, which was denied. On March 3, 2015, WesternGeco then filed a petition for certiorari in this Court, seeking review of the Federal Circuit's decisions on foreign lost profits and also for a "G.V.R." order on enhanced damages based on the pending *Halo Electronics v. Pulse Electronics*, 136 S.Ct. 1923 (2016). No. 15-1085. This Court issued a G.V.R. order as to the enhanced damages on June 20, 2016. 136 S. Ct. 2486 (2016). The judgment of this Court, however, did not mention the foreign lost profits question. Neither party sought any further relief from this Court. Neither party filed a brief or motion with the Federal Circuit after remand from this Court.

On remand from this Court, the Federal Circuit held that "...the issue of lost profits is not properly before us," Pet. App. 4a, because "[t]he general rule is that, when the Supreme Court remands in a civil case, the court of appeals should confine its ensuing inquiry to matters coming within the specified scope of the remand." Pet. App. 5a, fn. 1 (citations omitted). Accordingly, the Federal Circuit's original July 2, 2015 opinion remains unchanged regarding lost profits. This Court should decline WesternGeco's request to re-litigate foreign lost profits.

Separately, the case is not suitable for review for factual and legal reasons. Factually, WesternGeco has conceded it does not compete with ION. WesternGeco asked for a jury instruction that lost profits could be awarded if WesternGeco competed with ION's customers (all of which were foreign companies, assembling and using their systems abroad), which the district court refused, and which WesternGeco did not appeal. ION raised this argument challenging lost profits on appeal for lack of competition, but the Federal Circuit did not reach this second argument because it reversed lost profits based on extraterritoriality. As a factual matter, this distinction makes the petition unsuitable for review since a reversal would require a remand to resolve the factual sufficiency issues on lost profits under existing damages law.

Moreover, the panel opinion pointed out that the cases the dissent relied upon in arguing for extraterritoriality were fact-specific, and none of those fact patterns applied here. The panel did expressly consider the factual basis in this case as distinguished from that in the cases relied upon by Judge Wallach in his dissent. Pet. App. 46a-47a. Notably, Judge Wallach in his (procedurally inappropriate)

dissent from the opinion following remand attempted to craft a test for extraterritorial lost profits on a case specific basis, weighing the proximity between the United States infringement and the injury alleged, as well as the relationship between "the volume of infringing activity in the United States" and the "volume of lost sales." Pet. App. 20a-22a. Because Judge Wallach's theory requires a fact-intensive analysis on "proximity" and the quantifiable relationship between United States infringement the volume of lost sales overseas, which was not presented below, there is no fact finding to support the dissent's proposed test. *Id.* And since these issues were not raised in the district court or in WesternGeco's direct appeal to the Federal Circuit, this is the wrong case in which to consider them.

Further, this case is also complicated by the fact that the Patent Trial and Appeal Board ("PTAB") has declared four of the five claims in the patents in suit on which lost profits were awarded to be unpatentable and ordered them cancelled. WesternGeco appealed the PTAB orders to the Federal Circuit; that appeal has been fully briefed, and will be argued in due course. Should the Federal Circuit affirm cancellation of the claims, then any relief based on those claims will be vacated under established law. The facts here could, and likely will, change once the Federal Circuit rules on WesternGeco's appeals from the PTAB Orders.

There is also another procedural problem with WesternGeco's petition: WesternGeco raises arguments in its second petition that it never raised in the district court or the Federal Circuit, such as the supposed need to reconcile copyright and patent law in this area. WesternGeco never

argued in any lower court for importation of the predicate act doctrine from copyright law into patent law. Because WesternGeco is relying on arguments it initially raised in its first petition for writ of certiorari, and then again in this second petition—but never in the district court or Federal Circuit—the question is not ripe, and also the record below is not complete enough to consider the question in the petition.

Finally, WesternGeco's argument on the merits is wrong. First, in pertinent part, the Federal Circuit in its July 2, 2015 opinion focused on the nature and purpose of 271(f). The Federal Circuit expressly found that 271(f) was never intended to create ***more*** exposure for the exporter of components than existed for the exporter of finished goods under 271(a): that is, Congress intended to plug the hole left by *Deepsouth*, so that an exporter of components could not escape the same responsibility for infringement as the exporter of the finished product. Pet. App. 44a-45a. The panel observed that just as there can be no direct infringement for foreign use of an exported article, so too there could not be damages flowing from such use under 271(f). Pet. App. 44a. Indeed, to do so, the panel observed, "would confer a worldwide exclusive right to a U.S. patent holder..." --contrary to law and any notion of international comity. *Id.*

Section 284 provides for damages sufficient to compensate ***for the infringement***. Section 271(f) in effect puts on the exporter of components the same exposure for infringement as the exporter of the finished product under 271(a). The infringement in both instances is limited to export, and in neither situation does it go beyond acts in the United States. *Id.* It makes no sense that the exporter

of a component should have more liability under 271(f) than the exporter of the finished product that directly infringes the patent under 271(a).

The panel decision faithfully applied this Court's guidance in *Microsoft v. AT&T* and the Federal Circuit's own precedent on extraterritoriality. Contrary to WesternGeco's arguments, in responding to the dissent, the panel neither ruled on nor questioned the predicate act doctrine, since it had never been raised below. (The predicate act doctrine was first raised in an amicus brief in support of WesternGeco's motion for rehearing of the panel decision.)

Likewise, the "proximity/relationship" test advocated by Judge Wallach, in his dissent from the opinion on remand, was not considered because the question had not before been put in issue by WesternGeco. Indeed, it has never been put in issue by any party, and was first raised by Judge Wallach after this Court's judgment on WesternGeco's petition for certiorari. There is no record or jury finding or lower court opinion addressing Judge Wallach's newly proposed test.

For all of these reasons, the petition should be denied.

FACTUAL STATEMENT

ION is a small company based in Houston, Texas. The accused product under § 271(f)(2) was the DigiFIN, and this was the basis on which liability was affirmed by the Federal Circuit. Pet App. 16a. The DigiFIN is a device used in the process of lateral steering marine streamers during a marine survey.[1]

---

1. The district court found that a "back off" algorithm, which corrects the angle of an individual wing, provided vertical movement.

A series of DigiFINs are placed on marine streamers, attached to a vessel, together with survey equipment, as well as "birds" for depth control (vertical movement), and a shipboard master computer system that controls various functions of the devices on the streamer, including the DigiFINs. The DigiFINs are used to help steer the streamer from side-to-side. ION has long sold a separate device, which predated the patents in suit, called a DigiBIRD. The DigiFINs are deployed along a streamer to assist in horizontal or lateral steering. The DigiBIRDs are deployed along a streamer to assist in vertical positioning of the streamer. The DigiBIRD, like the DigiFIN, is comprised of a "wing" connected to a small body. Parts used in the DigiBIRD overlap with those used in the DigiFIN. The DigiFIN itself does not infringe, but is one component in the apparatus claimed in the patents-in-suit.

WesternGeco and ION do not compete in the same market. Pet. at 9. ION sells equipment for marine oil field exploration. WesternGeco, a wholly owned subsidiary of Schlumberger, sells marine seismic surveys overseas using its foreign fleet of vessels. *Id.* at 8. ION did not sell the surveys (or even the completed infringing system); WesternGeco did not sell the components or the systems.

In 2009, WesternGeco sued ION and ION's customer Fugro on over 100 claims from several patents, most of which claimed priority to an original Great Britain Application. ION counterclaimed based on its own patent related to "birds", and also asserted other counterclaims and defenses, including invalidity. Fugro settled with WesternGeco. By the time of trial, WesternGeco went forward against ION on only six of the scores of original

claims. After lengthy discovery, a long trial, and post-trial motions, judgment was entered in May 2014 against ION for WesternGeco's lost profits from foreign competition overseas, and a reasonable royalty on DigiFINs exported from the United States, as well as an injunction prohibiting further exports of DigiFINs. Pet. App. 146a. ION appealed on several bases, among them: (1) liability under 271(f)(1)[2] ; (2) liability under 271(f)(2)[3]; and (3) the District Court's award of foreign lost profits. Pet. App. 2a. WesternGeco cross-appealed the denial of enhanced damages.

ION appealed lost profits on two separate bases. ION's Opening Br. at 47, CAFC Case: 13-1527, D65-1. One basis was that damages could not be awarded for foreign use by ION's overseas customers. *Id.* Specifically, ION alleged that a royalty for the export of components was proper, but that it was legally impermissible for WesternGeco to receive lost profits from surveys performed by foreign third parties overseas that used ION's components as part of a complete survey system. *Id.* at 50-55. ION separately appealed the jury's verdict on an independent ground: lost profits could not be upheld under jury instructions explicitly requiring, under well-established precedent, a finding that ION and WesternGeco were competitors. CA. App. 11098-11099. WesternGeco requested an instruction that would have skewed this rule by asking that the jury need only find ION's ***customers'*** services competed in

---

2. 271(f)(1) addresses supplying multiple components from the United States that form a substantial portion of an invention claimed in a United States patent.

3. 271(f)(2) addresses supplying a component that has no substantial use other than in a combination that would infringe if assembled in the United States.

the same market as WesternGeco's survey services. CA. App. 11005. The district court correctly rejected WesternGeco's instruction, and WesternGeco did not appeal the instruction as given. CA. App. 11098-11099. As shown by WesternGeco's own petition, the parties did not compete in either the same product market or the same service market. Pet. 8-9.

On July 2, 2015, the Federal Circuit issued an opinion that, among other things, held WesternGeco could not get lost profits damages for use abroad by ION's foreign customers. In that same opinion, the Court affirmed ION's liability under 271(f)(2), and affirmed the District Court's denial of enhanced damages under the former *Seagate* standard. It is undisputed that ION's components do not themselves directly infringe WesternGeco's patents under 271(a), and there was no challenge to the district court's dismissal of WesternGeco's claims against ION based on inducement to infringe (271(b)) or contributory infringement (271(c)). The Federal Circuit did not address ION's challenge to the district court's judgment on § 271(f)(1) liability on procedural grounds, and also did not address ION's second ground for challenging the award of lost profits—that ION and WesternGeco are not competitors. Pet App. 40a-48a. Judge Wallach dissented from the panel opinion, arguing that lost profits should be affirmed as they were ultimately traceable to ION's sale of components in the United States.

In its first petition for certiorari in early 2016, WesternGeco challenged the Federal Circuit's denial of lost profits for foreign use. It was here that WesternGeco first raised the predicate act doctrine under copyright law. WesternGeco never raised copyright law's predicate act

doctrine in the district court, and never raised it in the Federal Circuit either. In fact, the issue was first injected into the case by an amicus brief filed by Carnegie Mellon in support of WesternGeco's Motion for Rehearing *en banc*, and then was discussed in the dissent from denial of rehearing. Pet. App. 178a-179a.

In that first petition for certiorari, WesternGeco also asked the Court to hold its first petition pending issue of the decision in *Halo Electronics v. Pulse Electronics*, 136 S.Ct. 1923 (2016). In view of the opinion in *Halo*, the Court granted the writ on enhanced damages, vacated on that issue and remanded for further proceedings on enhanced damages. This Court's judgment (G.V.R order) made no mention of the foreign lost profits issue. On remand, the Federal Circuit reformed and adopted its prior opinion on all issues except enhanced damages (Pet. App. 2a) which the court of appeals remanded to the district court. The Federal Circuit specifically noted on remand that it could not review the lost profits issue since this Court did not change or comment on that ruling. Pet. App.4a, fn 1. Despite this, the dissent again raised the predicate act doctrine, and also argued for the first time its "proximity/relationship" test.

When the mandate issued remanding the enhanced damages to the district court, WesternGeco filed this second petition for certiorari on the same subject as question 1 in its first certiorari petition—recovery of the jury's award of lost profits for extraterritorial use—which this Court already declined to grant. Simultaneously, WesternGeco went forward in the district court, obtaining an order that the royalties be paid promptly despite lack of a final judgment. ION paid the reasonable royalties

with interests and costs, as offset by a settlement credit with another party. WesternGeco then moved for approximately $20 – 40 million in enhanced damages based on the approximately $20 million reasonable royalty award (including interests, costs, and settlement credit). The district court awarded $5,000,000 in enhanced damages. A revised final judgment has not yet been entered.

There is another factual speedbump as well. During the pendency of the case below, WesternGeco also sued ION customers, all foreign companies performing surveys on the high seas, including Petroleum Geo-Services, Inc. ("PGS"). Since PGS was sued after the America Invents Act created the *inter partes* review procedure ("IPR"), PGS was able to use the new IPR procedure to file petitions in the PTAB to cancel the claims of the patents-in-suit as invalid over the prior art. When the PTAB instituted those proceedings on five of the six claims on which relief was based (including the original verdict for lost profits), ION was able to join those proceedings. The PTAB issued final written decisions on December 15, 2015, that the principal four claims driving the suit were not patentable. *Petroleum Geo-Services, Inc., v. WesternGeco L.L.C.*, Case IPR2014-00687, Paper No. 100 (PTAB 2015); *Petroleum Geo-Services, Inc., v. WesternGeco L.L.C.*, Case IPR2014-00688, Paper No. 101 (PTAB 2015); *Petroleum Geo-Services, Inc., v. WesternGeco L.L.C.*, Case IPR2014-00689, Paper No. 101 (PTAB 2015).[4] WesternGeco filed motions for rehearing, which were denied. These cases are now on appeal before the Federal Circuit. If the Federal

4. The Court can take judicial notice of subsequent PTAB proceedings, even if not in the record on appeal. *VirtualAgility Inc. v. Salesforce.com, Inc.*, 759 F.3d 1307, 1312-1313 (Fed. Cir. 2014).

Circuit affirms the PTAB decisions, the U.S.P.T.O. will then cancel the claims.

The sole surviving claim of those asserted as a basis for lost profits for lateral steering, claim 23 of the '520 patent, relates to turning a vessel towing streamers. Pet. App. 76a. The PTAB found that another prior method for turning vessels towing streamers did not invalidate WesternGeco's specific way of doing the same operation.[5] The PTAB's findings that WesternGeco did not invent lateral steering, and its finding that claim 23 of the '520 patent only applied to one type of turning, not all turning, shows that the "legal monopoly" WesternGeco complains that it lost, never should have existed at all. The Federal Circuit's July 2, 2015 opinion shows that to the extent WesternGeco's United States patents gave it a legal monopoly, that monopoly existed only within the United States.

REASONS TO DENY THE PETITION

I. The Second Certiorari Petition Is Improper

The Federal Circuit on remand specifically held lost profits were not before it on remand. Pet. App. 4a, fn 1. The grant-vacate-remand Order from this Court was "granted" as to the petition as a whole, as nothing in this Court's Order indicated that the petition was granted only as to the enhanced damages issue, with the foreign lost profits issue being held in abeyance.[6] Accordingly,

---

5. This shows that there are non-infringing substitutes for this claim, so it cannot support lost profits.

6. Indeed, as a practical matter, it would have made no sense for this Court to split the enhanced damages issue from the lost

when the grant-vacate-remand order was issued, and no mention was made of the lost profits issue, that judgment ended litigation over foreign lost profits.

The case law from numerous Circuits is consistent that a remand from this Court on a single issue shows that all other issues raised in a petition have been denied. *Hermann v. Brownell*, 274 F.2d 842, 843 (9th Cir. 1960) (declaring that the appellate court's jurisdiction "is rigidly limited to those points, and those points only, specifically consigned to our consideration by the Supreme Court"), *cert. denied*, 364 U.S. 821 (1960); *see also Clark v. Chrysler Corp.*, 436 F.3d 594, 598 (6th Cir. 2006); *Kotler v. Am. Tobacco Co.*, 981 F.2d 7, 13 (1st Cir. 1992); *Escalera v. Coombe*, 852 F.2d 45, 47 (2d Cir. 1988); *Hyatt v. Heckler*, 807 F.2d 376, 381 (4th Cir. 1986). The Federal Circuit cited many of these same cases in holding that the issue of lost profits was no longer pending. Pet. App. 4a, fn 1.[7]

WesternGeco ***does not discuss***, let alone challenge, the effect of the Federal Circuit's procedural ruling. WesternGeco was obligated in its petition to address

---

profits issue. Since enhanced damages relates to damages as a whole (i.e., reasonable royalty plus any lost profits), the fact that this Court remanded for analysis of enhanced damages—without addressing lost profits—is effectively a denial of the applicability of lost profits as "damages" to be considered for enhancement. To put it another way, if this Court had been inclined to reverse or vacate the lost profits issue—and thus potentially change the underlying damages—it would have done that as part of the same proceeding as the enhanced damages remand.

7. Notably, there was no *en banc* opinion, or *en banc* dissent, from the Federal Circuit's opinion remanding the case on enhanced damages, as there had been for the first Federal Circuit opinion.

this procedural issue, as the jurisdictional ruling by the Federal Circuit presented a separate, alternative ground for denial of the relief that WesternGeco now seeks. Failure to address this alternative ground is fatal to WesternGeco's petition and even if this Court were to agree with WesternGeco on the substantive issues, WesternGeco has not identified any error with the Federal Circuit's procedural finding.

While WesternGeco has recast its arguments, it cannot escape the fact that both its first and second petitions for certiorari ask for the same relief on the same issue. Indeed, in both petitions, WesternGeco raises the same argument about porting copyright law's predicate act doctrine into patent law, as well as its arguments about what it says is full compensation for infringement. WesternGeco has already had its day in this Court in its first petition for writ of certiorari.

Finally, WesternGeco fails to address why it is proper for it to file this second petition on the same ground as the first. The Court issued a judgment on the first petition, which contained a G.V.R. Order on enhanced damages, and in due course the case was remanded. The judgment granted no relief on the lost profits question. The judgment and mandate were, however, on the entire petition. It was not labeled a partial judgment nor did it say the first question could be pursued a second time without prejudice. Indeed, question 1 dealt with compensatory damages and question 2 dealt with enhancement of compensatory damages, which in normal course are dealt with in that order. On remand, the Federal Circuit simply adopted its first opinion on lost profits, no changes were made. If this Court were to deal with compensatory damages, it would

have done so expressly, not by silence. WesternGeco's attempt to re-litigate a second petition is improper and the writ should be so denied.

This Court should deny WesternGeco's petition for certiorari because it is an improper effort to re-litigate a matter within the scope of this Court's June 2016 judgment on WesternGeco's first petition.

II. The Federal Circuit's Opinion Is Consistent with Both This Court's and Its Own Precedent

In *Microsoft v. AT&T*, this Court held that the presumption against extraterritoriality applies with "particular force" to the patent laws, including § 271(f). 550 U.S. at 454-455. AT&T tried to avoid the presumption by arguing that it was attacking Microsoft's act of making and distributing "golden masters" of Windows in the United States and then exporting them to foreign computer makers. *Id.* at 456. The Court held that the presumption against extraterritoriality required the Court to adhere carefully to the words of the statute, and that making and distributing a golden master was not the same as replicating software on the disks or drives shipped overseas, which would be the component actually used in the allegedly infringing computer systems. *Id.* at 458. In *Cardiac Pacemakers v. St. Jude*, 576 F.2d at 1348, 1362 (Fed. Cir. 2009) (en banc), *cert. denied*, 558 U.S. 1115 (2010), the Federal Circuit wrote that in *Microsoft*, "The Court sent a clear message that the territorial limits of patents should not be lightly breached." Likewise, in *Cardiac Pacemakers*, the Federal Circuit used the presumption against extraterritoriality to interpret § 271(f) to overrule its own past precedent and hold that method claims were not within the meaning of "component" in the statute:

> Congress was clearly focused on closing the loophole presented in *Deepsouth, viz.*, that shipping an unassembled patented product abroad for later assembly avoids patent infringement. Congress's focus on patented products is apparent from an examination of the legislative history. *See, e.g.*, S.Rep. No. 98-663 at 6 (1984) (stating that § 271(f) will "prevent copiers from avoiding U.S. patents by shipping overseas the components of a *product* patented in this country so that assembly of the components will be completed abroad." (emphasis added)); 130 Cong. Rec. H10,525 (daily ed. Oct. 1 1984) (same).

576 F.2d at 1364. There is nothing in § 271(f) that states damages are any different than for infringement under § 271(a) or that § 271(f) applies to overseas use by foreign customers. Indeed, under § 271(f) proof of infringement does not require proof that the components were actually assembled or used, rather the act of infringement is complete upon export from the United States. *Limelight*, 134 S. Ct. at 2118. Just as *Cardiac Pacemakers* relied on the presumption against territoriality to construe the statute according to its explicit wording (overruling the Federal Circuit's own precedent), so too the Federal Circuit here limited the infringement and damages to the acts in the United States of supplying the components for export. This matched the scope of the injunction granted by the district court, which does not prohibit supply of DigiFINs that are made and sold abroad. Pet. App. 115a. It is undisputed that WesternGeco does not sell components and that it lost no sales of components. Pet. App. 3a. Finally, most recently, in *Life Technologies*

v. Promega, 137 S. Ct. 734 (2017), this Court rejected the Federal Circuit's panel decision giving 271(f)(1) an expansive reading, instead strictly confining the scope of that statute to the narrower interpretation, as was done in *Microsoft* and by the Federal Circuit in *Cardiac Pacemakers*.

The damages for infringement are governed by 35 U.S.C. § 284. The panel's treatment of damages for infringement under § 271(f) is the same as for other acts of infringement under §§ 271(a), (b), or (c). There are no damages for foreign use since that is not an infringement of a United States patent. Indeed, ION made this exact argument in its briefing, providing an example of how damages under § 271(f) for components shipped from the U.S. to the Bahamas and used in foreign waters should be exactly the same as damages under § 271(c) for components shipped within the U.S. to Miami and used in those same foreign waters. ION's Reply Br. at 36 n.17, CAFC Case: 13-1527, D79.

ION's argument was supported by *Power Integrations, Inc. v. Fairchild Semiconductor, Inc.*, 711 F.3d 1348, 1371 (2013), *cert. denied*, 134 S. Ct. 900 (2014), where the Federal Circuit explained:

> Our patent laws allow specifically "damages adequate to compensate *for the infringement*." 35 U.S.C. § 284 (emphasis added). They *do not thereby provide compensation for a defendant's foreign exploitation of a patented invention*, which is not infringement at all. *Brown*, 60 U.S. at 195 ("And the use of it outside of the jurisdiction of the United States is not an infringement of his

> rights, and he has no claim to any compensation for the profit or advantage the party may derive from it."). (Emphasis added)

The Federal Circuit's holding here is even one step removed from *Power Integrations*, because it is not ION that was exploiting the invention overseas, but rather it was ION's foreign customers who combined the components with ships, marine streamers, computer systems, seismic survey software and equipment, and other equipment to make and use the invention overseas to perform marine surveys. Just as WesternGeco argued foreseeability and relied on *General Motors v. Devex*, 461 U.S. 648, 657 (1983) (holding district court could in its discretion award prejudgment interest on patent damages), the Federal Circuit considered and rejected those same arguments in *Power Integrations*:

> Power Integrations' "foreseeability" theory of worldwide damages sets the presumption against extraterritoriality in interesting juxtaposition with the principle of full compensation. Nevertheless, Power Integrations' argument is not novel, and in the end, it is not persuasive. Regardless of how the argument is framed under the facts of this case, the underlying question here remains whether Power Integrations is entitled to compensatory damages for injury caused by infringing activity that occurred outside the territory of the United States. The answer is no.[8]

---

8. As the panel below wrote: "It is clear that under § 271(a) the export of a finished product cannot create liability for extraterritorial

Power Integrations, 711 F.2d at 1371. This Court denied certiorari in 2014 in that case, and it should similarly do so here.

Shortly after the panel decision in this case, the Federal Circuit relied on the decision to deny infringement damages under ***§ 271(a)*** based on extraterritorial acts, writing:

> In *Goulds' Manufacturing Co. v. Cowing*, 105 U.S. 253, 26 L.Ed. 987 (1881), the Supreme Court approved an award, based on an accounting of the defendant's profits, reaching units made in the United States though some were to be used only abroad. *Id.* at 256. In *Railroad Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506 (Fed. Cir. 1984), this court held that a royalty award could reach units made in the United States—valued at their sale price—regardless of whether they were sold abroad. *Id.* at 1519. On the other hand, in *Power Integrations*, we rejected a claim to lost-profits damages based on the defendant's "entirely extraterritorial production, use, or sale of an invention patented in the United States," pointing to § 271(a). 711 F.3d at 1371-72; *see also WesternGeco*, 791 F.3d at 1348-52 (rejecting foreign *use* as basis for lost-profits damages).

Carnegie Mellon University v. Marvell Technology Group Ltd., 807 F.3d 1283, 1307 (Fed. Cir. 2015) (emphasis in

---

use of that product. The leading case on lost profits for foreign conduct is *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013)." Pet. App. 20a-21a.

original). This illustrates the point that there is a single damages statute for all infringers and such damages must be for infringement (that is, acts in the United States). Damages under § 284 are the same for a direct infringer under § 271(a) as for someone now deemed an infringer under § 271(f).

The panel's decision itself rebuts Judge Wallach's reading of cases in his dissent, as well as that of WesternGeco, which they argue permit damages for foreign use outside of the United States:

> First, the dissent identifies Supreme Court cases it believes approved awards of lost profits for foreign sales, citing *Gould's Manufacturing Co. v. Cowing*, 105 U.S. 253, 26 L.Ed. 987 (1881), *Dowagic Manufacturing Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641 (1915), and *Duchesne*, 60 U.S. 183. None of these cases is remotely similar to this one. To be sure, they suggest that profits for foreign sales of the patented items in question were manufactured in the United States and sold to foreign buyers by the U.S. manufacturer. *See Goulds' Mfg.*, 105 U.S. at 254; *Dowagiac Mfg.*, 235 U.S. at 642-43; *Duchesne*, 60 U.S. at 196. There is no such claim here. Rather the claim is for use abroad of the items in question. The dissent's own authority, *Dowagiac Manufacturing*, makes clear that absent sales to foreign buyers by the U.S. manufacturer, there can be no recovery of lost profits for foreign sales. 235 U.S. at 650.

Pet. App. 24a-25a (quotation omitted).

There is no split of decisions within the Federal Circuit, and it has faithfully applied this Court's decision in *Microsoft v. AT&T* in interpreting § 271(f) and § 284, limiting damages to the infringement–here for supplying components from the United States. This is not a case for certiorari.

III. Allowing Damages for Wholly Extraterritorial Acts under § 271(f) Would Open the Door for Worldwide Damages under Other Sections of § 271.

As shown by *Power Integrations* and *Carnegie-Mellon*, the scope of damages under § 284 is limited to the infringing conduct. Although both of these cases relied on § 271(a), they ultimately rely on the presumption against extraterritoriality that this Court spoke of in *Microsoft* and the Federal Circuit's decision in *Cardiac Pacemakers*. *Power Integrations* and *Carnegie-Mellon* show that damages for infringement are limited to infringing acts ***in the United States*** under 35 U.S.C. § 284. Nothing in § 271(f) or § 284 permits for damages based on subsequent use overseas, especially in light of the presumption against extraterritorial application of the patent laws.

WesternGeco is asking this Court to abandon the presumption against territoriality as it applies to § 271(f), effectively overruling *Microsoft v. AT&T* and the cases that have relied on it under both § 271(f) and § 271(a). If this presumption were overruled, all infringers could be liable for claims of damages anywhere in the world where the patent owner can trace some connection between acts in the United States and claims for damages in other countries. Neither § 271 nor § 284 should now be construed broadly to permit for damages for foreign use, which is

not infringement at all. The Federal Circuit observed as much in its July 2, 2015 opinion when it wrote that if WesternGeco's view were adopted, a United States patent would effectively become a world-wide patent, contrary to law. This Court should deny certiorari as it did in *Power Integrations* in 2014.

IV. This Fact-Driven Case Is Not a Good Vehicle for the Court to Review on Lost Profits

Lost profits are based on lost sales from the infringer selling competing products that the patentee otherwise would have sold. Here, the facts show there is no competition between ION (selling components) and WesternGeco (selling marine survey services). The factual disconnect provides an additional reason why this Court should not grant certiorari.

There is no split of authority as argued by WesternGeco and Judge Wallach in his dissent, and the panel's opinion clearly illustrates this point. Pet. App. 46a-47a. Even to the extent Judge Wallach's dissent suggests there is a split among the Federal Circuit's past opinions, that split is based on his distinction of ***the facts*** in prior cases. As shown above, the panel debunked the factual distinctions the dissent made and that WesternGeco relied on in its petition. One case relied upon by Judge Wallach in his dissent was *Promega Corp. v. Life Technologies Corp.*, 773 F.3d 1338, 1344 (Fed. Cir. 2014), *reversed*, 137 S.Ct. 734 (2017); Pet. App. 34a. But *Life Technologies* is not to the contrary, and does not even speak to damages for foreign use: indeed, liability was foreclosed in *Life Technologies* by this Court's rejection of the Federal Circuit's broad reading of 271(f)(1) in favor of a strict construction and

narrower application of the statute. Moreover, Judge Wallach's own dissent here and his joinder in the majority in *Carnegie Mellon* shows his views turn on the facts of the cases. Pet. App. 32a.

Moreover, in his most recent dissent, Judge Wallach hypothesized about a possible test for damages for foreign use based on a factual analysis of proximity and connection to the United States. Even if Judge Wallach's theory were to be accepted, these factual issues make this case inappropriate for certiorari. This is especially so since they were raised for the first time after resolution of the first petition for certiorari and the jury was never asked to decide proximity or connection to the United States.

V. There Is No Circuit Split on the Predicate Act Doctrine and It Has Been Waived in any Event

As shown by pages 26-29, especially footnote 2, of the first petition, those Circuit Courts that have considered whether the predicate act doctrine under copyright law is viable have not disputed its existence. The Federal Circuit has acknowledged the viability of the predicate act doctrine in copyright law. There is no split to be resolved.

Moreover, any argument about importing the predicate act doctrine from copyright law into patent law has been waived. WesternGeco never raised this issue in the district court or the Federal Circuit. There was no trial on the issue and no briefing or argument on appeal from either party on it. The predicate act doctrine was not mentioned in the panel decision or dissent in the panel opinion. Rather, the first time this issue was raised was in an amicus brief filed by Carnegie-Mellon on

WesternGeco's Motion for Rehearing. The dissent from the Motion for Rehearing relied in part on the predicate act doctrine, but it was never raised by WesternGeco prior to its first petition and never mentioned in the case prior to rehearing by anyone. WesternGeco has waived this argument.

Further, this Court should not take up this question because no record was made on it in any lower court by either party, and neither the district court nor the Federal Circuit panel had an opportunity to consider it. *See Wood v. Milyard*, 132 S. Ct. 1826, 1834 (2012) ("[A]ppellate courts ordinarily abstain from entertaining issues that have not been raised and preserved in the court of first instance."). The petition should be denied.

VI. Lost Profits Were Unavailable Here for Additional Reasons Regardless of Extraterritoriality, So This Case Would Not Be Resolved in This Court

WesternGeco's unprecedented damages theory and the absence of sufficient supporting facts gave rise to a second, independent basis for reversing lost profits. ION raised this issue on appeal, but it was never reached by the panel because of its ruling on extraterritoriality. Even if the Court were to reverse the panel opinion on extraterritoriality, this second basis would then have to be decided by the Federal Circuit, and it would invariably lead to the same result. The courts have long held that to recover lost profits, a patentee must prove that, but for the infringement, it would have made the sales the infringer made. *E.g., Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152, 1156 (6th Cir. 1978); *BIC Leisure Prods., Inc. v. Windsurfing Int'l, Inc.*, 1 F.3d 1214, 1218 (Fed. Cir.

1993); *Crystal Semiconductor v. Tritech Microelectronics*, 246 F.3d 1336, 1360 (Fed. Cir. 2001).

The jury was so instructed here: "The burden is on WesternGeco to show that ***its product competed in the same market with ION's product*** and that it would have made the alleged lost sales if the infringement had not occurred." CA. App. 11074 (emphasis added). It was impossible for WesternGeco to meet this charge because the parties did not compete at all. ION sold only components from the U.S., not overseas marine survey services. WesternGeco sold only overseas marine survey services, not components. Cognizant of this defect in its lost profits claim, WesternGeco proposed an alternative instruction changing its burden from showing "its product competed in the same market with ION's product" to "its surveys competed in the same market ***with the surveys using*** ION's product" to eliminate this crucial distinction. CA. App. 11113 (emphasis added).

The district court correctly rejected WesternGeco's alternative instruction, and critically WesternGeco did not appeal the jury instruction. Instead, WesternGeco attempted a sleight of hand, stating below that "ION concedes the jury was properly instructed on damages." (Pet. at 8 n.3). But the jury's award of lost profits was fundamentally inconsistent with that instruction, as ION argued both to the district court and on appeal. ION's Opening Br. at 56-58, CAFC Case: 13-1527, D65-1.

Were this Court to reverse on extraterritoriality, it would not resolve the case because the second ground for elimination of lost profits would be considered on remand to the Federal Circuit and would bring about the same

result. This fact-bound issue will prevent the Court from resolving the case, or perhaps even reaching the merits of the extraterritoriality issue.

VII. The Lost Profits Issue Could Be Rendered Moot by PTAB Findings of Invalidity

Four of the five patent claims that support lost profits, including the broadest claim (claim 18 of the '520 patent, which WesternGeco asserted at trial gave it "ownership" of the concept of lateral steering), have been held unpatentable in final written decisions by the PTAB. The PTAB denied WesternGeco's motions for rehearing. Final Written Decision, Case IPR2014-0068 (Dec. 15, 2015); Final Written Decision Case IPR2014-00687 (Dec. 15, 2015); Final Written Decision Case IPR2014-00689 (Dec. 15, 2015). These final decisions from the PTAB are now on appeal before the Federal Circuit (briefing is complete, oral argument has not been set). Courts can take judicial notice of subsequent actions in the PTAB. *VirtualAgility Inc. v. Salesforce.com, Inc.*, 759 F.3d 1307, 1312-1313 (Fed. Cir. 2014), *citing Genentech, Inc. v. Chiron Corp.*, 112 F.3d 495, 497 n. 1 (Fed.Cir.1997) (noting that, because the "record before the Board is a public record . . . and thus capable of accurate and ready determination by resort to unquestionable sources," judicial notice was appropriate). Here, the issues of invalidity turn on whether the claims would not be novel to one of ordinary skill in the art (that is they would be obvious). "Obviousness is a question of law based on underlying findings of fact." *In re Kubin*, 561 F.3d 1351, 1355 (Fed. Cir. 2009). The Federal Circuit "reviews the Board's fact findings for substantial evidence." *Leo Pharma. Prods. Ltd. v. Rea*, 726 F.3d 1346, 1353 (Fed. Cir. 2013). If the PTAB decisions are affirmed and the

claims cancelled by the U.S.P.T.O. before the litigation is completely over, then any relief based on the cancelled claims is void. *Fresenius USA, Inc. v. Baxter Intern., Inc.*, 721 F.3d 1330, 1347 (2013).

The petition for certiorari could be rendered largely moot by the Federal Circuit's ruling on WesternGeco's appeal from the adverse PTAB decisions. Again, this is yet one more reason to deny WesternGeco's petition.

VIII. The Federal Circuit Opinion Serves the Need for Comity in International Law

The Court of Appeals vacated damages based on foreign use, following this Court's presumption against extraterritoriality and its own precedent. This petition effectively asks for reconsideration of *Microsoft* and overruling of that decision and the Federal Circuit decisions that have applied it. WesternGeco complains that it is left without a remedy if U.S. patents do not apply on the high seas. But in *Brown v. Duchesne*, 60 U.S. 183, 195 (1857), this Court held use of a patented invention on the high seas as "out of the jurisdiction of the United States." Further, the vast majority of developed countries have their own patent systems. In fact, as shown on the face of each patent-in-suit, WesternGeco's original patent application on the lateral steering claims that supported lost profits was filed in Great Britain, not the United States. The Federal Circuit noted that even on the high seas the law of the country that flagged the vessel might apply or the law where the contract for the survey was entered into or negotiated might apply. Pet. App. 46a-47a. WesternGeco knows it needs foreign patents to circumscribe foreign use. This Court should reject

WesternGeco's efforts to revisit the scope of United States patents under § 271(f) or remedies under § 284, because United States patents do not rule the world.

CONCLUSION

WesternGeco's second petition is literally the "same song second verse". While WesternGeco cries foul and tries to derogate ION, as well as re-claim its lost "monopoly," the most likely future is that the Federal Circuit will affirm the PTAB's ruling, and ION will be the last entity to ever be forced to pay WesternGeco on its unpatentable claims. Moreover, WesternGeco's re-urging of issues which this Court previously declined to review, especially in light of the reasons why review should be refused, is unfair to this Court, to ION, and to other litigants. WesternGeco's petition for writ of certiorari should be denied.

APRIL 19, 2017

Respectfully submitted,

JUSTIN M. BARNES
TROUTMAN SANDERS LLP
11682 El Camino Real,
Suite 400
San Diego, California 92130
(858) 509-6000

DAVID J. HEALEY
Counsel of Record
BRIAN G. STRAND
BAILEY K. HARRIS
FISH & RICHARDSON P.C.
1221 McKinney Street,
Suite 2800
Houston, Texas 77010
(713) 654-5300
healey@fr.com

Attorneys for Respondent

RECORD AND BRIEFS

Supreme Court, U.S.
FILED
MAY - 8 2017
OFFICE OF THE CLERK

No. 16-1011

In the Supreme Court of the United States

WESTERNGECO LLC,
Petitioner,

v.

ION GEOPHYSICAL CORPORATION,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITIONER'S REPLY BRIEF

TIMOTHY K. GILMAN
LESLIE M. SCHMIDT
KIRKLAND & ELLIS LLP
601 Lexington Avenue
New York, N.Y. 10022
(212) 446-4800

PAUL D. CLEMENT
Counsel of Record
GREGG F. LOCASCIO, P.C.
JOHN C. O'QUINN
WILLIAM H. BURGESS
KIRKLAND & ELLIS LLP
655 Fifteenth St. N.W.
Washington, D.C. 20005
(202) 879-5000
paul.clement@kirkland.com

MAY 2016

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20002

TABLE OF CONTENTS

Page

REPLY BRIEF 1

I. The Petition is Proper 2

II. ION's Arguments Underscore the Conflict With Statutory Text, *General Motors*, *Goulds*, *Dowagiac*, and Copyright Law. 3

A. The Conflict With this Court's Precedent and the Patent Act Warrants Review. 3

B. The Panel Decision's Conflict With Other Circuits' Predicate Act Doctrine Favors Review. 7

III. This Case is Important and an Ideal Vehicle. 10

CONCLUSION 12

TABLE OF AUTHORITIES

Page

Cases

Amini Innovation Corp. v. Anthony Cal., Inc.,
439 F.3d 1365 (Fed. Cir. 2006) 9

Cardiac Pacemakers v. St. Jude,
576 F.3d 1348 (Fed. Cir. 2009) 6

Coupe v. Royer, 155 U.S. 565 (1895) 10

Crystal Semiconductor Corp. v. TriTech Microelectronics Int'l, Inc.,
246 F.3d 1336 (Fed. Cir. 2001) 11

Deepsouth Packing Co. v. Laitram Corp.,
406 U.S. 518 (1972) 1

Dowagiac Manufacturing Co. v. Minn. Moline Plow Co.,
235 U.S. 641 (1915) 1, 3, 7, 8

Gen. Motors Corp. v. Devex Corp.,
461 U.S. 648 (1983) 7

Goodyear Tire & Rubber Co. v. Haeger,
137 S. Ct. 1178 (2017) 11

Goulds Manufacturing Co. v. Cowing,
105 U.S. 253 (1881) 1, 3, 4, 7, 8

Impression Prods., Inc. v. Lexmark Int'l, Inc.,
137 S. Ct. 546 (2016) 9

Kamen v. Kemper Fin. Servs., Inc.,
500 U.S. 90 (1991) 10

Lexmark Int'l, Inc. v. Static Control Components, Inc., 134 S. Ct. 1377 (2014) 7

Life Technologies Corp. v. Promega Corp., 137 S. Ct. 734 (2017) 6

Lindheimer v. Ill. Bell Tel. Co., 292 U.S. 151 (1934) 10

Major League Baseball Players Ass'n v. Garvey, 532 U.S. 504 (2001) 2

Mercer v. Theriot, 377 U.S. 152 (1964) 2

Microsoft Corp. v. AT&T Corp., 550 U.S. 437 (2007) 5, 6

Palmer v. Braun, 376 F.3d 1254 (11th Cir. 2004) 8

Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc., 589 F. Supp. 2d 505 (D. Del. 2008) 5

Power Integrations, Inc. v. Fairchild Semiconductor, Inc., 711 F.3d 1348 (Fed. Cir. 2013) 4, 5

SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC, 137 S. Ct. 954 (2017) 9, 10

Sheldon v. Metro-Goldwyn Pictures Corp., 106 F.2d 45 (2d Cir. 1939) 7, 8

Tire Eng'g & Distrib., LLC v. Shandong Linglong Rubber Co.,
682 F.3d 292 (4th Cir. 2012) 8

Whitman v. Dep't of Transp.,
547 U.S. 512 (2006) 11

Yale Lock Mfg. Co. v. Sargent,
117 U.S. 536 (1886) 10

Statutes

35 U.S.C. § 271(a) 4

35 U.S.C. § 271(f) 1, 3-7, 11

35 U.S.C. § 284 7

Rule

S. Ct. Rule 10 9

Other Authorities

Restatement (2d) of Torts § 912 (1979) 7

Stern & Gressman, *Supreme Court Practice*
(8th ed. 2002) 2

REPLY BRIEF

The Federal Circuit crafted a patent-specific rule with no basis in statutory text that both (1) undoes Congress's deliberate work responding to *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), and (2) double-counts the presumption against extraterritoriality in conflict with the regional circuits' approach to the same issue in copyright law. The result drastically weakens the rights of every patentee who would rely on § 271(f) to enforce its patents.

ION's opposition only strengthens the case for this Court's review. ION repeatedly emphasizes, for example, that its infringing conduct occurred *in the United States*. Nonetheless, ION insists that the presumption against extraterritoriality immunizes it from the entirely foreseeable extraterritorial consequences of its concededly territorial infringement. Every regional circuit to decide the question has reached the opposite conclusion in the copyright context and recognized that the presumption against extraterritoriality does not limit foreseeable damages from *domestic infringement*. The split between that approach and the Federal Circuit decision below is stark. Worse, both the Federal Circuit and the regional circuits contend that their diametrically opposed rules are consistent with *Goulds Manufacturing Co. v. Cowing*, 105 U.S. 253 (1881) and *Dowagiac Manufacturing Co. v. Minn. Moline Plow Co.*, 235 U.S. 641 (1915)—which both concern *patent damages*.

Most of ION's opposition strains to avoid the question squarely presented here. Indeed, ION's principal argument—questioning the propriety of the petition—fundamentally misunderstands both this

Court's earlier GVR and the Court's certiorari jurisdiction. And the remainder of ION's opposition refers to arguments it made below but the court did not reach, preferring instead to rest on its misguided limitation on foreign lost profits from domestic infringement. At bottom, ION's opposition merely underscores the need for this Court's review.

I. The Petition is Proper.

ION's main argument misunderstands this Court's certiorari jurisdiction and the nature of this Court's earlier GVR. BIO § I. It is well established that this Court "can reach back and correct errors in the interlocutory proceedings below, *even though no attempt was made at the time* to secure review of the interlocutory decree *or even though such an attempt was made without success.*" Stern & Gressman, *Supreme Court Practice* 75 (8th ed. 2002); *see also Major League Baseball Players Ass'n v. Garvey*, 532 U.S. 504, 508 n.1 (2001) (The Court "ha[s] authority to consider questions determined in earlier stages of the litigation where certiorari is sought from the most recent of the judgments of the Court of Appeals."); *see also Mercer v. Theriot*, 377 U.S. 152, 153 (1964) ("[I]t is settled that we may consider questions raised on the first appeal, as well as those that were before the court of appeals upon the second appeal.") (internal quotation marks omitted). Thus, under any circumstances, there would be no obstacle to this Court addressing the question presented.

But here, the Court's ability to reach the question presented is particularly clear. As ION itself emphasizes, BIO 12, this Court's previous GVR order explicitly *granted* the whole petition (raising both questions) and *vacated* the whole Federal Circuit deci-

sion. 136 S. Ct. 2486 ("Petition for writ of certiorari granted. Judgment vacated..."). That only strengthens the case for review by emphasizing that Petitioner's prior petition was granted in whole and the prior Federal Circuit decision, including its misguided damages ruling, was vacated *in toto*. Accordingly, the Federal Circuit needed to issue a new opinion, and there is absolutely no obstacle to WesternGeco raising any certworthy issue addressed in the new Federal Circuit decision that explicitly replaced the decision vacated by the GVR order. App.2a-3a ("reinstat[ing] earlier opinion and judgment"); App.4a-5a & n.1. Both under this Court's longstanding precedent, and the explicit terms of the GVR order, the Question Presented is properly raised here, and the Court should review it now.

II. ION's Arguments Underscore the Conflict With Statutory Text, *General Motors*, *Goulds*, *Dowagiac*, and Copyright Law.

A. The Conflict With this Court's Precedent and the Patent Act Warrants Review.

1. ION repeatedly emphasizes that its infringement took place in the United States. *See, e.g.*, BIO ii ("infringement is complete upon export"), iii ("infringement in the United States"), 4 (twice referring to "United States infringement"), 5 (infringement under § 271(f) "is limited to export" and does not "go beyond acts in the United States"), 9 ("ION's sale of components in the United States"), 16 ("complete upon export"). ION is absolutely correct, but this repeated emphasis is puzzling since it only strengthens the case for review here and underscores the Federal Circuit's mistake in relying on the presumption

against extraterritoriality. Congress enacted section 271(f) to prohibit certain actions in the United States associated with further extraterritorial actions that undermine patent rights, knowing full well that the consummating steps—and thus often the resulting damages—would occur abroad. Pet. 7, 18-19. There is no reason to think that Congress wanted to *disfavor* damages for patentees who rely on § 271(f) just because the damages were (all but inevitably) incurred extraterritorially. To the contrary, the whole point of the statute is to identify certain acts with a sufficient territorial nexus to justify their prohibition notwithstanding that the final steps take place abroad. To use the presumption against extraterritoriality to limit the damages from those concededly territorial acts of infringement is at best double counting and at worst directly contrary to Congress' judgment in § 271(f).

ION argues that the Federal Circuit places damages for infringement under § 271(f) on equal footing with damages for other acts of infringement. BIO 17-21. As Judge Wallach's dissents and the petition explain, that rationale misses the mark. App.17a-22a; App.66a; Pet. 15-22. Under this Court's longstanding precedent, so-called "foreign lost profits" *are* recoverable for other types of infringement. An infringer who makes infringing widgets in the United States (violating § 271(a)) and sells them in Canada can be made to pay lost profits if the patentee shows that the infringement caused lost profits. *Goulds*, 105 U.S. at 256-57; Pet. 22-23.

2. ION relies heavily on *Power Integrations, Inc. v. Fairchild Semiconductor, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013). BIO 17-19, 21-22. *Power Integrations*, of

course, does not bind this Court, but neither does it support ION. In *Power Integrations*, the patentee's damages theory included electronic chips that were made and sold abroad and never entered the United States. *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 589 F. Supp. 2d 505, 510-11 (D. Del. 2008); *Power Integrations*, 711 F.3d at 1372. As Judge Wallach explained in this case—and as Judge Reyna, the author of *Power Integrations* agreed—*Power Integrations* does not double-count the presumption against extraterritoriality to limit liability and damages. Rather, *Power Integrations* addressed "the *sufficiency of the connection* between the foreign activity and the domestic infringement," and "merely applie[d]" principles of proximate causation and foreseeability to the damages award in that case. App.66a; *see also* App.178a (Reyna, J., joining dissent).

Here, there is no dispute that ION violated § 271(f) by its conduct *in the United States*. Again, ION emphasizes that point repeatedly. BIO ii, iii, 4, 5, 9, 16. Nor is there any dispute that the jury's damages award covered harm that flowed directly and foreseeably from that intentional conduct. Pet. 9-10; App.175a (jury form, assessing damages "WesternGeco has proven by a preponderance of the evidence that it suffered as a result of ION's infringement."); Jury Instructions, S.D. Tex Case No. 4:09-CV-01827, ECF#530, at 25-26 (lost profits instructions).

3. ION invokes *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007), and argues that the petition attacks *Microsoft* and the presumption against extraterritoriality itself. BIO i, 15. Not so. *Microsoft* ap-

plied the presumption against extraterritoriality to determine what actions are subject to *liability* under § 271(f). *Microsoft* held, based in part on the presumption against extraterritoriality, that "foreign-made copies of Windows actually installed on the computers were supplied from places outside the United States," and thus could not be components "supplied *from* the United States" under § 271(f). 550 U.S. at 452. The issue was thus whether *acts* that occurred outside the United States constituted *infringement* under § 271(f). No similar issue exists here because—again, as ION helpfully and repeatedly emphasizes—ION's infringement liability is based on acts ION took in the United States. WesternGeco proved to the jury's satisfaction that those acts directly and foreseeably caused it precisely the sort of damages Congress must have contemplated when it enacted § 271(f).

Equally unavailing is ION's reliance on *Cardiac Pacemakers, Inc. v. St. Jude Medical, Inc.*, 576 F.3d 1348 (Fed. Cir. 2009). BIO 15-16. That case—even as ION describes it—addressed liability, not damages. *Id.* ION also cites *Life Technologies Corp. v. Promega Corp.*, 137 S. Ct. 734 (2017), but that case only underscores the error below. As with *Microsoft* and *Cardiac Pacemakers*, *Life Technologies* concerned *liability* under § 271(f) , and the specific question of how much domestic activity is enough to trigger liability. In answering that question, the presumption against extraterritoriality is fully applicable. But once there is enough territorial activity to trigger liability—which again in both conceded and emphasized here—then artificially limiting damages because some of the harm was manifested abroad is erroneous double counting. Moreover, the Court's

decision to grant certiorari in that case underscores the importance of § 271(f) to the patent system. *See* Pet. 29-31.

4. The issue is not whether the presumption against extraterritoriality should be overruled as ION mistakenly suggests. Rather, it is whether the presumption should be double-counted to limit *damages* under 35 U.S.C. § 284, when it is undisputed that the infringing conduct occurred in the United States, and the damages are foreseeably caused by the infringement. As the petition noted, and ION ignores, patent infringement is a tort, Pet. 19-20, and damages in any tort case are appropriately limited by principles of proximate cause and foreseeability. *See* Restatement (2d) of Torts § 912 (1979); *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1393-94 (2014); App.17a-22a; App.66a.

The Federal Circuit's application of the presumption to limit the type of damages available for acts of U.S. infringement is unprecedented, and cuts off an entire category of damages without any "explicit[]" instruction from Congress. *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 653 (1983). That decision warrants this Court's review.

B. The Panel Decision's Conflict With Other Circuits' Predicate Act Doctrine Favors Review.

The conflict between the Federal Circuit's rule for patent law and other circuits' consistent rule for copyright is stark. The Federal Circuit and every other circuit draw diametrically opposite conclusions from this Court's decisions in *Dowagiac* and *Goulds* (both cases addressing *patent infringement damages*). Judge Hand's seminal opinion in *Sheldon v. Metro-*

Goldwyn Pictures Corp., 106 F.2d 45 (2d Cir. 1939) cited *Goulds* and *Dowagiac* for the proposition that the presumption against extraterritoriality did not bar the plaintiffs from collecting damages arising out of foreign exhibition of a film, where the film was produced using negatives copyrighted and copied in the United States. *Id.* at 52. The direct tie to *domestic* infringement meant that the court "need not decide whether the law of [foreign] countries" recognized the plaintiff's copyright. *Id.* (citing *Goulds* and *Dowagiac*). Every circuit to reach the issue agrees, and reaffirms that the presumption against extraterritoriality is not violated because the predicate act doctrine is rooted in wrongful *domestic* conduct and cabined by principles such as proximate cause, foreseeability, and statutes of limitations. *See, e.g., Tire Eng'g & Distrib., LLC v. Shandong Linglong Rubber Co.*, 682 F.3d 292, 306-08 (4th Cir. 2012); *Palmer v. Braun*, 376 F.3d 1254, 1258 (11th Cir. 2004). *See also* 17a; 57a-58a; 60a-64a (dissenting opinions of Judge Wallach, discussing *Goulds* and *Dowagiac*); 179a-180a (dissenting opinion of three judges, addressing predicate act doctrine).

The Federal Circuit, however, draws the opposite conclusion—that it follows from the presumption against extraterritoriality that so-called "foreign lost profits" cannot lie. App.41a-48a. And remarkably, the Federal Circuit—in direct contrast to Judge Hand and the Second Circuit—reads *Goulds* and *Dowagiac* as *supporting* that rule. Appx46a-47a.

Both cannot be right, and Judge Hand is rarely wrong. Either way, this square copyright-vs-patent conflict on a general principle (the presumption against extraterritoriality) is precisely the sort of

important legal conflict that warrants this Court's review. *See, e.g., SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, 137 S. Ct. 954 (2017) (reversing Federal Circuit, in case of copyright-vs-patent conflict regarding laches); *Impression Prods., Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 546 (2016) (granting certiorari to review Federal Circuit decision presenting copyright-vs-patent conflict regarding international exhaustion).

ION's only substantive response response to the predicate act doctrine (BIO § V) is to deny that any "split" exists because the Federal Circuit has "acknowledged the viability of the predicate act doctrine under copyright law." BIO 23. That is a *non sequitur* that does not deny that the Federal Circuit's patent rule conflicts with other circuits' copyright rule. And in any event, the Federal Circuit has no choice but to concede the "viability" of the other circuits' contrary copyright rule because it is obligated to address copyright issues (like other non-patent issues) according to the circuit law governing the district court from which the appeal arises. *Amini Innovation Corp. v. Anthony Cal., Inc.*, 439 F.3d 1365, 1368 (Fed. Cir. 2006). That said, the prospect that the Federal Circuit could apply diametrically opposed damages rules to domestic copyright infringement and domestic patent infringement *in the same case* certainly underscores the need for review.

ION's waiver argument (BIO 24) borders on frivolous. The conflict between Federal Circuit's rule for patents and other circuits' rule for copyrights underscores the *importance* of the question presented for Rule 10 purposes. There is no issue of "preservation" or "waiver" or any need to "make a record" of consid-

erations favoring certiorari. *Id.* And in any event, litigants waive issues, not arguments. *Kamen v. Kemper Fin. Servs., Inc.*, 500 U.S. 90, 99-100 (1991). The *issue* of WesternGeco's entitlement to lost profits was squarely before the Federal Circuit—it was the basis of ION's appeal. ION ultimately has no answer for the patent-vs-copyright conflict this case creates.

III. This Case is Important and an Ideal Vehicle.

ION does not deny the importance of the question presented. Its two "vehicle" arguments are unsound. BIO §§ IV, VI.

First, ION repeats in two sections of its brief that this case is "fact-driven" because—in ION's view—ION does not compete with WesternGeco, and "[t]he factual disconnect provides an additional reason why this Court should not grant certiorari." BIO 22 (§ IV); 24-25 (§ VI, same argument). The argument is meritless in its own right, and no obstacle to review. WesternGeco is vertically integrated. Though its business is broader than ION's, WesternGeco does compete directly with ION. More importantly, the jury specifically found that ION's infringement caused WesternGeco to lose profits. App175a. No court has disturbed that finding. Direct competition is not a prerequisite to lost profits, and it is well-established that damages are based on the patentee's loss, not the infringer's gain.* *See, e.g., Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 551-52 (1886); *Coupe v. Royer*, 155 U.S. 565, 582 (1895); Pet. 17-18,

---

* WesternGeco ultimately won lost profits at the district court, and could not have appealed the lost-profits jury instruction, as ION suggests. BIO 8; *see Lindheimer v. Ill. Bell Tel. Co.*, 292 U.S. 151, 176 (1934).

21. ION's desire to resurrect that argument in the event of a remand is no reason to deny review. That ION might possibly have additional arguments on remand—meritorious or otherwise—is no reason not to grant review in the first place. *Whitman v. Dep't of Transp.*, 547 U.S. 512, 515 (2006) ("The various other issues ... not decided below, may also be addressed on remand...."); *Goodyear Tire & Rubber Co. v. Haeger*, 137 S. Ct. 1178, 1190 (2017) (respondent's waiver argument can be addressed on remand).

Second, collateral administrative proceedings at the Patent Office cannot moot damages in this case. BIO 11-12, 26-27. Having tried and failed at the district court and on appeal, ION no longer disputes infringement or validity in this case. Under an unchallenged jury instruction, lost profits could be awarded so long as there was *at least one* patent claim (from the various asserted patents) found infringed and not invalid. App.175a (Verdict form: "If *any* claim is infringed and not invalid, what damages do you find WesternGeco has proven ...?") (emphasis added); *see also* Jury Instructions, S.D. Tex Case No. 4:09-CV-01827, ECF#530, at 25 ("WesternGeco must show ... that ION's alleged infringement of a valid patent claim caused WesternGeco to lose sales."). The Patent Office proceedings *only question the validity of a subset* of the claims the jury found infringed by ION and not invalid. Thus, even if ION's speculation about the ultimate outcome of those collateral proceedings comes to pass, at least two patents would still remain with valid claims infringed under § 271(f): the '520 patent (claim 23), *and* the '038 patent (claim 14). App.170a-174a (jury finding those claims valid and infringed); *see Crystal Semiconductor Corp. v. TriTech Microelectronics Int'l, Inc.*, 246

F.3d 1336, 1357 (Fed. Cir. 2001) ("Lost profit damages do not depend on the number of patents infringed by one single product ...."). ION concedes that at least claim 23 of the '520 patent was included in the lost profits analysis, BIO 12, 26, and ION never contested that a single valid and infringed claim could support a lost profit award. *Retractable Techs., Inc. v. Becton Dickinson & Co.*, 757 F.3d 1366, 1370 (Fed. Cir. 2014) (argument "that the damages award must be revisited if either one of the two products at issue are found not to infringe ... could have and should have been raised in the previous appeal."). Everyone who has challenged these two claims, whether in court or at the Patent Office, has failed, and the pending proceedings ION references do not involve these claims. Patent Office proceedings therefore cannot moot the petition.

CONCLUSION

This Court should grant the petition.

MAY 2017

Respectfully submitted,

TIMOTHY K. GILMAN
LESLIE M. SCHMIDT
KIRKLAND & ELLIS LLP
601 Lexington Avenue
New York, N.Y. 10022
(212) 446-4800

PAUL D. CLEMENT
Counsel of Record
GREGG F. LOCASCIO, P.C.
JOHN C. O'QUINN
WILLIAM H. BURGESS
KIRKLAND & ELLIS LLP
655 Fifteenth St. N.W.
Washington, D.C. 20005
(202) 879-5000
paul.clement@kirkland.com

No. 16-1011

In the Supreme Court of the United States

WESTERNGECO LLC, PETITIONER

v.

ION GEOPHYSICAL CORPORATION

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

NOEL J. FRANCISCO
Solicitor General
Counsel of Record
CHAD A. READLER
Principal Deputy Assistant Attorney General
MALCOLM L. STEWART
Deputy Solicitor General
JONATHAN Y. ELLIS
Assistant to the Solicitor General
MARK R. FREEMAN
JOSEPH F. BUSA
Attorneys

Department of Justice
Washington, D.C. 20530-0001
SupremeCtBriefs@usdoj.gov
(202) 514-2217

QUESTION PRESENTED

The Patent Act of 1952, 35 U.S.C. 1 *et seq.*, provides that, when a patent owner prevails in an infringement action, "the court shall award the claimant damages adequate to compensate for the infringement." 35 U.S.C. 284. Such damages may include lost profits that the patent owner would have earned but for the infringement. *Yale Lock Mfg. Co.* v. *Sargent*, 117 U.S. 536, 552-553 (1886). The question presented is as follows:

Whether a patentee that has proved a domestic act of patent infringement may recover lost profits that it would have earned outside of the United States if the infringement had not occurred.

TABLE OF CONTENTS

Page

Statement 1
Discussion 7
A. Petitioner may recover all lost profits proximately caused by respondent's domestic infringement, including profits it would have earned by performing surveys on the high seas 8
B. The question presented is important and recurring 18
C. This case is a suitable vehicle for resolving the question presented 20
Conclusion 23

TABLE OF AUTHORITIES

Cases:

Albemarle Paper Co. v. *Moody*, 422 U.S. 405 (1975) 6
Aro Mfg. Co. v. *Convertible Top Replacement Co.*, 377 U.S. 476 (1964) 3, 8, 17
Brown v. *Duchesne*, 60 U.S. (19 How.) 183 (1857) ... 6, 16, 17
Carnegie Mellon Univ. v. *Marvell Tech. Grp., Ltd.*, 807 F.3d 1283 (Fed. Cir. 2015) 19
Chafin v. *Chafin*, 568 U.S. 165 (2013) 21
Deepsouth Packing Co. v. *Laitram Corp.*, 406 U.S. 518 (1972) 1, 2, 10
Dowagiac Mfg. Co. v. *Minnesota Moline Plow Co.*, 235 U.S. 641 (1915) 6, 16, 18
EEOC v. *Arabian Am. Oil Co.*, 499 U.S. 244 (1991) 12
General Motors Corp. v. *Devex Corp.*, 461 U.S. 648 (1983) ..... *passim*
Grain Processing Corp. v. *American Maize-Prods. Co.*, 185 F.3d 1341 (Fed. Cir. 1999) 9
Halo Elecs., Inc. v. *Pulse Elecs. Inc.*, 136 S. Ct. 1923 (2016) 7

Cases—Continued: Page

Hughes Tool Co. v. *Trans World Airlines, Inc.*, 409 U.S. 363 (1973) 22
Impression Prods., Inc. v. *Lexmark Int'l, Inc.*, 137 S. Ct. 1523 (2017) 11
Kiobel v. *Royal Dutch Petroleum Co.*, 569 U.S. 108 (2013) 10
Kirtsaeng v. *John Wiley & Sons, Inc.*, 568 U.S. 519 (2013) 11
Life Techs. Corp. v. *Promega Corp.*, 137 S. Ct. 734 (2017) 2
Los Angeles News Serv. v. *Reuters Television Int'l, Ltd.*, 149 F.3d 987 (9th Cir. 1998), cert. denied, 525 U.S. 1141 (1999) 19, 20
Manufacturing Co. v. *Cowing*, 105 U.S. 253 (1882) 6, 16, 17
Pasquantino v. *United States*, 544 U.S. 349 (2005) 16
Pearson v. *Callahan*, 555 U.S. 223 (2009) 14
Power Integrations, Inc. v. *Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013), cert. denied, 134 S. Ct. 900 (2014) 5, 6, 19
RJR Nabisco, Inc. v. *European Cmty.*, 136 S. Ct. 2090 (2016) 10, 11, 12, 13, 14, 15
Schillinger v. *United States*, 155 U.S. 163 (1894) 8
Seymour v. *Osborne*, 78 U.S. (11 Wall.) 516 (1871) 10
Sheldon v. *Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir.), cert. denied, 308 U.S. 617 (1939), and aff'd, 309 U.S. 390 (1940) 20
SmithKline Diagnostics, Inc. v. *Helena Labs. Corp.*, 926 F.2d 1161 (Fed. Cir. 1991) 14
Sony Corp. of Am. v. *Universal City Studios, Inc.*, 464 U.S. 417 (1984) 20
Staub v. *Proctor Hosp.*, 562 U.S. 411 (2011) 8

Cases—Continued: Page

Tire Eng'g & Distrib., LLC v. *Shandong Lindlong Rubber Co.*, 682 F.3d 292 (4th Cir. 2012), cert. denied, 568 U.S. 1087 (2013) 20

Update Art, Inc. v. *Modiin Publ'g, Ltd.*, 843 F.2d 67 (2d Cir. 1988) 20

Yale Lock Mfg. Co. v. *Sargent*, 117 U.S. 536 (1886) 3, 8

Statutes:

Copyright Act of 1976, 17 U.S.C. 101 *et seq.* 20

17 U.S.C. 504(b) 20

Patent Act of 1952, 35 U.S.C.1 *et seq.* 1

35 U.S.C. 102(a) 10

35 U.S.C. 154(a)(1) 10, 15

35 U.S.C. 271 ..... 3, 10

35 U.S.C. 271(a) 1, 5, 14, 19

35 U.S.C. 271(d)(4) 14

35 U.S.C. 271(f) 2, 4, 5, 9, 14, 18

35 U.S.C. 271(f)(1) 2

35 U.S.C. 271(f)(2) 2

35 U.S.C. 281 ..... 2, 15

35 U.S.C. 284 ..... *passim*

Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. 1961 *et seq.* 12, 15

18 U.S.C. 1964(c) 15

28 U.S.C. 1295(a)(1) 18

Miscellaneous:

Black's Law Dictionary (10th ed. 2014) 16

H.R. Rep. No. 1587, 79th Cong., 2d Sess. (1946) 14

Restatement (Second) of Torts (1965) 9

Miscellaneous—Continued: Page

Stephen M. Shapiro et al., *Supreme Court Practice* (10th ed. 2013) 22

In the Supreme Court of the United States

No. 16-1011

WESTERNGECO LLC, PETITIONER

v.

ION GEOPHYSICAL CORPORATION

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

This brief is filed in response to the Court's order inviting the Solicitor General to express the views of the United States. In the view of the United States, the petition for a writ of certiorari should be granted.

STATEMENT

1. Under the Patent Act of 1952 (Patent Act), 35 U.S.C. 1 *et seq.*, "whoever without authority makes, uses, * * * or sells any patented invention, *within the United States* * * * , infringes the patent." 35 U.S.C. 271(a) (emphasis added). In *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972), this Court held that a company did not commit infringement by manufacturing all of the component parts of a patented machine in the United States and then shipping those parts overseas for final assembly by a customer. *Id.* at 523-525. The Court explained that, because "[o]ur patent system makes no claim to extraterritorial effect," the patentee-plaintiff in an infringement suit was required to show

that the defendant had "'ma[de],' 'use[d],' or 's[old]' the patented product within the bounds of this country." *Id.* at 527, 531. The Court further held that, because the patented product in that case was not "made" until its components were combined abroad, no act of domestic infringement had occurred. *Id.* at 529 (citation omitted); see *id.* at 528-529.

Congress responded to *Deepsouth* by enacting 35 U.S.C. 271(f). See *Life Techs. Corp.* v. *Promega Corp.*, 137 S. Ct. 734, 742-743 (2017). Section 271(f)(1) provides that it is infringement to supply "in or from the United States all or a substantial portion of the components of a patented invention * * * in such manner as to actively induce the combination of such components outside of the United States." 35 U.S.C. 271(f)(1). Section 271(f)(2) similarly provides that it is infringement to supply "in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, * * * intending that such component will be combined outside of the United States." 35 U.S.C. 271(f)(2).

2. "A patentee shall have remedy by civil action for infringement of his patent." 35 U.S.C. 281. A patent owner who prevails in an infringement action is entitled to damages "adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. 284.

This Court has construed Section 284 to require "full compensation" to the patentee for any infringement, consistent with traditional common-law tort principles. See *General Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 654 (1983) (concluding that prejudgment interest is

available under Section 284). Damages under the Patent Act, like compensatory damages in tort law, should "ensure that the patent owner is placed in as good a position as he would have been in" absent the infringement. *Id.* at 655. In the context of direct infringement under Section 271, the Court has accordingly recognized that damages under Section 284 may include lost profits that the patentee would have earned but for the defendant's infringing conduct. See *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964); *Yale Lock Mfg. Co.* v. *Sargent*, 117 U.S. 536, 552-553 (1886).

3. Petitioner WesternGeco LLC owns four patents relating to marine seismic surveys, which are used to search for oil and gas beneath the ocean floor. Pet. App. 24a, 79a-80a, 86a. When conducting a marine seismic survey, a ship typically tows an array of sensors attached to cables, called "streamers," that detect soundwaves reflected off the ocean floor. *Id.* at 24a-25a. The information obtained is used to create maps of the subsurface geology. *Id.* at 79a. Petitioner's patents cover a system for controlling the movement of the streamers in a manner that produces more efficient surveys and higher-quality data. *Id.* at 25a, 79a-80a. Rather than sell or license this system to others, petitioner manufactures the patented system domestically, then performs seismic surveys on the high seas, using its patented system, and earns fees for performing those services. *Id.* at 25a, 40a.

Respondent ION Geophysical Corporation manufactures components of a similar survey system that, when assembled, embodies petitioner's patented invention, Pet. App. 40a. As relevant here, respondent manufactured the components of that system in the United

States and exported the components to customers abroad, who assembled the system and used it to perform surveys on the high seas in competition with petitioner. *Ibid.*

In 2009, petitioner sued respondent for patent infringement under Section 271(f). Pet. App. 25a. A jury found that respondent had infringed six different claims from petitioner's four patents. *Id.* at 26a-27a, 170a-171a, 174a-175a. The jury awarded petitioner $12.5 million in royalties. *Id.* at 80a, 116a, 175a. In addition, the jury awarded petitioner $93.4 million in profits that the jury found petitioner would have made on ten specific survey contracts that petitioner had lost to respondent's customers. *Ibid.*; see *id.* at 67a.

Respondent moved to vacate the lost-profits award. Pet. App. 116a. Respondent argued that it "would give improper extraterritorial effect to U.S. law" to award, as damages for the infringement, profits that petitioner had lost as a result of respondent's customers "making" or "using" the survey system abroad. *Ibid.* The district court denied the motion, concluding that lost-profits damages were appropriate in order to fully compensate petitioner for the harm caused by respondent's domestic infringement. *Id.* at 117a-118a.

4. A divided panel of the court of appeals affirmed the jury's verdict of infringement, but reversed the award of lost profits. Pet. App. 23a-53a.

a. As relevant here, the court of appeals concluded that, because the contracts that petitioner had lost were for performing seismic surveys "on the high seas, outside the jurisdictional reach of U.S. patent law," Pet. App. 41a, awarding lost profits for these contracts would contravene the presumption against the extraterritorial application of U.S. law, *id.* at 41a-45a. The court

noted that, because the overseas assembly and use of petitioner's invention by respondent's customers was not itself infringement, petitioner could not recover damages for those acts directly. *Id.* at 41a. The court further held that petitioner could not recover its lost profits on those contracts based on respondent's domestic infringement, because those losses "result[ed] from conduct occurring abroad." *Id.* at 24a.

The court of appeals interpreted existing Federal Circuit precedent involving infringement under 35 U.S.C. 271(a) to hold that "the export of a finished product cannot create liability for extraterritorial use of that product." Pet. App. 42a; see *id.* at 42a-43a (citing *Power Integrations, Inc.* v. *Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348, 1371-1372 (Fed. Cir. 2013), cert. denied, 134 S. Ct. 900 (2014)). The court declined to apply a different rule for damages under Section 271(f), stating that, "[j]ust as the United States seller or exporter of a final product cannot be liable for use abroad, so too the United States exporter of the component parts cannot be liable for use of the infringing article abroad." *Id.* at 45a.

b. Judge Wallach dissented from the court of appeals' lost-profits analysis. Pet. App. 54a-75a. He agreed that "patent rights granted by the United States are geographically limited." *Id.* at 54a. He explained, however, that the question presented involved "the proper measure of damages *given* a finding of liability" for respondent's domestic infringement. *Id.* at 70a. As to that question, Judge Wallach applied ordinary common-law damages principles to conclude that lost-profits damages should be recoverable to place petitioner, "as near as may be, in the situation [it] would have occupied

if the wrong had not been committed." *Id.* at 57a (quoting *Albemarle Paper Co.* v. *Moody*, 422 U.S. 405, 418-419 (1975)) (citation omitted).

Judge Wallach interpreted the Federal Circuit's existing precedent as requiring only a proximate causal connection between the domestic infringement and the lost profits. See Pet. App. 65a-67a (Wallach, J., dissenting in part) (citing *Power Integrations, Inc.*, 711 F.3d at 1371-1372). He further noted that permitting recovery of lost profits in these circumstances was consistent with three decisions of this Court that involved using "non-infringing foreign sales to calculate lost profits where the patented product [wa]s manufactured in the United States." *Id.* at 57a; see *id.* at 57a-58a (citing *Manufacturing Co.* v. *Cowing*, 105 U.S. 253 (1882), and *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.*, 235 U.S. 641 (1915)); *id.* at 72a (citing *Brown* v. *Duchesne*, 60 U.S. (19 How.) 183 (1857)).

5. The court of appeals denied rehearing en banc. Pet. App. 176a-177a. Judge Wallach, joined by Judges Newman and Reyna, dissented for the reasons expressed in Judge Wallach's dissent from the panel opinion. *Id.* at 178a-180a. Judge Wallach also noted that the majority's holding was at odds with copyright law's "predicate act" doctrine, under which a copyright owner "'is entitled to recover damages flowing from the exploitation abroad of . . . domestic acts of infringement.'" *Id.* at 179a (citation omitted).

6. Petitioner sought review in this Court of both the court of appeals' lost-profits holding and its resolution of petitioner's unrelated request for enhanced damages. This Court granted that petition for a writ of certiorari, vacated the court of appeals' decision, and remanded for reconsideration in light of the Court's then-recent

enhanced-damages decision in *Halo Electronics, Inc.* v. *Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016). See 136 S. Ct. 2486. On remand, the court of appeals declined to reconsider its lost-profits analysis. Pet. App. 4a n.1.

Judge Wallach renewed his dissent. Pet. App. 13a-22a. He criticized the panel for adopting an "unduly rigid" rule that prohibits "any consideration of foreign activities when measuring damages." *Id.* at 17a (citations omitted). He concluded that "barring the district court from considering foreign lost profits even when those lost profits bear a sufficient relationship to domestic infringement improperly cabins [the court's] discretion, encourages market inefficiency, and threatens to deprive plaintiffs of deserved compensation." *Id.* at 22a.

DISCUSSION

Section 284 of the Patent Act guarantees to a prevailing patent owner "damages adequate to compensate for the infringement." 35 U.S.C. 284. Consistent with common-law tort principles, this Court has held that Section 284 is intended to restore the patent owner to "as good a position as he would have been in" absent that domestic infringement. *General Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 655 (1983). The court of appeals erred by precluding recovery of lost-profits damages necessary to provide full compensation solely because those profits would have been earned on contracts to perform services outside of the territorial jurisdiction of United States. The presumption against extraterritoriality does not bar courts from taking notice of foreign evidence or events in fashioning appropriate relief for a domestic act of patent infringement.

The damages-calculation question presented here is an important and recurring one. The court of appeals' approach systematically undercompensates prevailing

patentees like petitioner, whose transnational business suffered when respondent infringed petitioner's patents within the United States. This case presents a suitable vehicle to correct that error. Because the Federal Circuit has exclusive jurisdiction over cases arising under the patent laws, the question is ripe for the Court's review. The petition for a writ of certiorari should be granted.

A. Petitioner May Recover All Lost Profits Proximately Caused By Respondent's Domestic Infringement, Including Profits It Would Have Earned By Performing Surveys On The High Seas

1. Congress has directed the court in a patent-infringement case to award a prevailing patentee "damages adequate to compensate for the infringement." 35 U.S.C. 284. Because patent infringement is a species of tort, *Schillinger* v. *United States*, 155 U.S. 163, 169-170 (1894), this Court has consistently construed Section 284 in light of the traditional common-law principle that compensatory damages should be adequate to restore the plaintiff to the position it would have occupied but for the tortious conduct. A patent owner thus is entitled to recover "the difference between [its] pecuniary condition after the infringement, and what [its] condition would have been if the infringement had not occurred." *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964) (quoting *Yale Lock Mfg. Co.* v. *Sargent*, 117 U.S. 536, 552 (1886)); see *General Motors*, 461 U.S. at 654.

The extent of a patentee's proper recovery for lost profits or other damages is limited by principles of proximate causation. See *Staub* v. *Proctor Hosp.*, 562 U.S. 411, 417 (2011) (presuming that "when Congress

creates a federal tort it adopts the background of general tort law"). In particular cases, the link between infringement and lost profits may be too tenuous, with too many intervening or unforeseeable causes, to permit recovery under those background principles. See generally Restatement (Second) of Torts §§ 430-453 (1965).[1] In this case, however, the court of appeals did not question whether respondent's infringement under Section 271(f) proximately caused petitioner's loss of profits from ten specific contracts to perform marine seismic surveys. See Pet. App. 67a, 175a. Rather, the court set aside the lost-profits award based solely on the foreign nature of those would-be sales. See *id.* at 44a-45a. As the case comes to this Court, it therefore may be taken as given that an award of lost profits is necessary to restore petitioner to the "position * * * [it] would have been in" absent the infringement. *General Motors*, 461 U.S. at 655.

2. Taking account of petitioner's foreign lost profits in calculating compensatory damages under Section 284 would not violate the presumption against extraterritorial application of U.S. law.

---

[1] A patentee's right to recover lost profits may be further limited by consideration of how an infringer might have adjusted its own conduct to mitigate its liability—including, as relevant here, by shifting all of its operations abroad. To calculate lost-profits damages, the court of appeals requires a "reconstruction of the market, as [the market] would have developed absent the infringing product." *Grain Processing Corp.* v. *American Maize-Prods. Co.*, 185 F.3d 1341, 1350 (Fed. Cir. 1999). That market reconstruction "must take into account, where relevant, alternative actions the infringer foreseeably would have undertaken had he not infringed." *Id.* at 1350-1351.

a. The presumption against extraterritoriality reflects the "'commonsense notion that Congress generally legislates with domestic concerns in mind,'" and it "serves to avoid the international discord that can result when U.S. law is applied to conduct in foreign countries." *RJR Nabisco, Inc.* v. *European Cmty.*, 136 S. Ct. 2090, 2100 (2016) (citation omitted). The presumption is "typically appl[ied] * * * to discern whether an Act of Congress regulating conduct applies abroad." *Kiobel* v. *Royal Dutch Petroleum Co.*, 569 U.S. 108, 116 (2013). The Patent Act's text confirms that both the exclusive rights conferred by a patent, 35 U.S.C. 154(a)(1), and the acts that constitute infringement, 35 U.S.C. 271, are bounded by the territorial jurisdiction of the United States. For these reasons, the Court observed in *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972), that "[o]ur patent system makes no claim to extraterritorial effect." *Id.* at 531.

At the same time, the presumption against extraterritoriality does not prevent courts from taking account of foreign activities in applying U.S. patent law to claims of domestic infringement. For example, a journal article describing an invention, published before the priority filing date of a U.S. patent application for the same invention, constitutes prior art that would invalidate the asserted patent. See 35 U.S.C. 102(a) ("A person shall be entitled to a patent unless * * * the claimed invention was * * * described in a printed publication * * * available to the public before the effective filing date of the claimed invention."). Although Section 102(a) does not expressly state that foreign publications qualify, this Court has long understood that provision to encompass prior art published anywhere in the world. See, *e.g.*, *Seymour* v. *Osborne*, 78 U.S. (11 Wall.)

516, 554-555 (1871) (discussing an anticipation defense based on a London publication).

Similarly, this Court held last Term that, when a U.S. patent owner authorizes the sale of an article embodying the patented invention, the U.S. patent rights in that article are exhausted. *Impression Prods., Inc.* v. *Lexmark Int'l, Inc.*, 137 S. Ct. 1523, 1535-1538 (2017). Describing the common-law tradition disfavoring restraints on the alienation of chattels as "borderless," the Court held that even the foreign sale of a patented article by the patentee exhausts the patentee's domestic patent rights in that article. *Id.* at 1536; cf. *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 568 U.S. 519, 539 (2013).

In these and other circumstances, foreign events can—and regularly do—have legal consequences under the Patent Act. But because those doctrines pertain to adjudicating a defendant's liability under U.S. law for *domestic* acts of alleged patent infringement, they have not been viewed as implicating the presumption against extraterritoriality. The Court in *Impression Products*, for example, did not cite *RJR Nabisco* or refer to the presumption.

The assumptions about legislative intent that animate the presumption are not directly implicated when a court takes account of relevant foreign evidence or activities in determining the proper application of U.S. law to *domestic* U.S. conduct. Doing so does not conflict with the "commonsense notion that Congress generally legislates with domestic concerns in mind." *RJR Nabisco*, 136 S. Ct. at 2100 (citation omitted). Nor does taking account of foreign evidence and events in imposing liability for domestic conduct pose a significant risk of "unintended clashes between our laws and those of

other nations which could result in international discord." *EEOC* v. *Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991).[2]

As support for its contention that respondent's domestic infringement was the proximate cause of economic harm to it, petitioner relied in part on evidence that other companies had performed surveys on the high seas using the components of the survey system that respondent supplied from the United States. But petitioner introduced those foreign surveys as evidence of how much better off petitioner would have been if respondent had not engaged in domestic infringement. Just as the exhaustion inquiry in *Impression Products* did not implicate the presumption against extraterritoriality because that inquiry was used to determine whether the defendant's domestic conduct was infringing, petitioner's reliance on evidence of foreign activities to establish its entitlement to damages from domestic infringement does not amount to the extraterritorial application of U.S. law.

Rather, petitioner's entitlement to damages should be informed by a different background principle: the traditional common-law rule that the victim of a tort should be returned to the position he or she would have occupied but for the legal wrong committed by the defendant. See *General Motors*, 461 U.S. at 654-655 (con-

---

[2] The Patent Act differs in this respect from the Racketeer Influenced and Corrupt Organizations Act (RICO), 18 U.S.C. 1961 *et seq.*, the statute at issue in *RJR Nabisco*. The Court in *RJR Nabisco* concluded that RICO's substantive prohibitions reach extraterritorial conduct, 136 S. Ct. at 2101-2103, and it observed that "providing a private civil remedy for foreign conduct creates a potential for international friction," *id.* at 2106. Under the Patent Act, by contrast, patent infringement can occur only within the United States.

struing Section 284 to reflect that principle). That traditional remedial principle is just as "borderless" as the common-law exhaustion principle that the Court applied in *Impression Products*. Under that principle, a foreign tourist negligently injured in a car crash in the United States should receive full compensation from the tortfeasor, including for lost wages the tourist would have earned in his home country. The fact that particular harmful consequences of the accident stem from wages that would have been earned abroad would not prevent the defendant's domestic negligence from being treated as the proximate cause of those harms. So too here, petitioner is entitled to recover "damages adequate to compensate for the infringement," including all lost profits proximately attributable to respondent's conduct.

b. This Court's analysis in *RJR Nabisco* does not require a different result. The Court in *RJR Nabisco* refined the two-step framework for identifying impermissible extraterritorial applications of federal statutes. First, the Court "ask[s] whether the presumption against extraterritoriality has been rebutted" by "a clear, affirmative indication that [the statute] applies extraterritorially." 136 S. Ct. at 2101. If the presumption has been rebutted, then an extraterritorial application of the statute is permissible. But if the presumption has not been rebutted, "then at the second step [the Court] determine[s] whether the case involves a domestic application of the statute * * * by looking to the statute's 'focus.'" *Ibid.* "If the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application even if other conduct occurred abroad." *Ibid.* Although the inquiry will typically proceed sequentially, courts are free to

start at step two "in appropriate cases." *Id.* at 2101 n.5 (citing *Pearson* v. *Callahan*, 555 U.S. 223, 236-243 (2009)).

The Court has not previously applied the *RJR Nabisco* framework to a general damages provision, let alone to a damages provision like Section 284 that applies only where a domestic legal violation has been established. But assuming that the framework applies, it does not support the court of appeals' conclusion. The "focus" of Section 284 is providing compensation for "infringement," which by definition consists of domestic conduct. See 35 U.S.C. 284 ("Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement."); see, *e.g.*, 35 U.S.C. 271(a) and (f) (defining as infringement only conduct occurring within the United States).

In enacting Section 284, "Congress sought to ensure that the patent owner would in fact receive full compensation for 'any damages' he suffered as a result of the infringement." *General Motors*, 461 U.S. at 654-655 (quoting H.R. Rep. No. 1587, 79th Cong., 2d Sess. 1 (1946)). Section 284 is not targeted to any specific type of economic injury or consequential damage. Even when a patent owner cannot prove any economic damages at all, as when the patentee has declined to sell or use its invention or to license its patent rights, see 35 U.S.C. 271(d)(4), he is entitled to recover a reasonable royalty. See 35 U.S.C. 284 (Court shall award damages "in no event less than a reasonable royalty for the use made of the invention by the infringer."); *SmithKline Diagnostics, Inc.* v. *Helena Labs. Corp.*, 926 F.2d 1161, 1164 (Fed. Cir. 1991). Rather, "Congress' overriding purpose [was] affording patent owners complete compensation." *General Motors*, 461 U.S. at 655. Thus, even if

calculating petitioner's lost profits requires taking account of foreign conduct, awarding lost-profits damages to make petitioner whole is a domestic application of Section 284, because the conduct relevant to Section 284's focus—the "infringement" of a U.S. patent—is domestic.

RJR Nabisco is not to the contrary. There, the Racketeer Influenced and Corrupt Organizations Act (RICO), 18 U.S.C. 1961 *et seq.*, created a private cause of action for "[a]ny person injured in his business or property" by certain racketeering activities prohibited by federal criminal law. 18 U.S.C. 1964(c). The Court's statement that Section 1964(c) "requires a civil RICO plaintiff to allege and prove a domestic injury to business or property," 136 S. Ct. at 2111, reflects an implicit conclusion that the focus of RICO's private cause of action was the injury to the plaintiff's business or property. The Court further observed that "by cabining RICO's private cause of action to particular kinds of injury * * * Congress signaled that the civil remedy is not coextensive with [RICO's] substantive prohibitions." *Id.* at 2108. Section 284, by contrast, provides for damages upon proof of infringement *simpliciter*. See 35 U.S.C. 281 (providing that "[a] patentee shall have remedy by civil action for infringement of his patent"); 35 U.S.C. 284 (providing that "the court shall award the claimant damages adequate to compensate for the infringement").

The two statutes differ in another respect as well. Although a private RICO plaintiff must allege and prove injury to its own business or property, its suit is premised on the defendant's violations of federal criminal laws that protect the general public. The patent holder in an infringement suit, by contrast, seeks to recover damages caused by the violation of its *own* legal rights. See 35 U.S.C. 154(a)(1) ("Every patent shall

contain * * * a grant *to the patentee* * * * of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States.") (emphasis added). In that sense, a patent holder is always seeking compensation for a wholly domestic legal injury, even if the consequences of that injury include lost profits that would have been earned overseas. See *Black's Law Dictionary* 905 (10th ed. 2014) (defining "injury" as "[t]he violation of another's legal right, for which the law provides a remedy; a wrong or injustice"); cf. *Pasquantino* v. *United States*, 544 U.S. 349, 353, 371 (2005) (Conviction for wire fraud in the United States depriving Canada of tax revenue was a domestic application of the statute because the "offense was complete the moment [the defendants] executed the scheme inside the United States.").

3. The court of appeals' decision is also inconsistent with the only decisions of this Court addressing the ability of patent owners to recover foreign lost profits attributable to domestic acts of patent infringement. Although none of those decisions squarely holds that such profits may be recovered, each suggests that the Federal Circuit's approach is mistaken. See *Brown* v. *Duchesne*, 60 U.S. (19 How.) 183 (1857); *Manufacturing Co.* v. *Cowing*, 105 U.S. 253 (1882); *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.*, 235 U.S. 641 (1915).

In *Duchesne*, this Court denied compensation to a patent owner whose patented invention was installed on a foreign vessel abroad before the vessel entered U.S. waters on a transitory commercial voyage. The Court explained that the extensive use of the patented invention "outside of the jurisdiction of the United States" was not an infringement of the patent holder's rights, and that the foreign vessel "could hardly be said to use

[the invention] while she was at anchor in the port, or lay at the wharf" within the United States. 60 U.S. (19 How.) at 195-196. The Court indicated, however, that the outcome would have been different if the patented device had been "manufactured on [the vessel's] deck while she was lying in the port" *inside* the United States. *Id.* at 196. In those circumstances, the Court stated, the defendant would have committed domestic infringement, and the patent owner would have been entitled to recover "for the injury he sustained, and the benefit and advantage which he (the defendant) derived from the invention," even though "[t]he chief and almost only advantage which [he] derived from the use of this improvement was on the high seas." *Ibid.*[3]

In *Manufacturing Co.*, the Court affirmed a patent owner's recovery of profits derived from sales to foreign customers. In that case, the patent owner manufactured pumps specialized for use in the oil-drilling regions of Canada and Pennsylvania. 105 U.S. at 254, 256. The defendant manufactured infringing pumps in the United States and sold them in those regions. *Ibid.* Although the Court did not specifically address the issue of extraterritorial application of U.S. law, it held that the patent owner was entitled to recover the infringer's *full* profits on the sales, without distinguishing between the infringer's profits from sales in Canada and Pennsylvania. *Ibid.*

Finally, in *Dowagiac Manufacturing*, the Court again suggested that the calculation of damages for domestic patent infringement may take account of foreign sales. A plaintiff who held a patent on plow technology sued a U.S.-based manufacturer of infringing plows, as

---

[3] Until 1946, the Patent Act provided for disgorgement of the infringer's profits. *Aro Mfg.*, 377 U.S. at 505-506.

well as the wholesalers who had sold the plows in the United States and Canada. 235 U.S. at 643, 650. The manufacturer settled, and the wholesalers were ordered to pay nominal damages. *Id.* at 643. This Court reversed the damages award and remanded for further proceedings in light of an intervening decision unrelated to the question presented here. *Id.* at 651. But the Court instructed that, on remand, the wholesalers could not be required to pay damages for their sales in Canada because the wholesalers' acts with regard to the plows at issue had been "wholly done in a foreign country." *Id.* at 650. Particularly relevant for present purposes, the Court distinguished the damages award in *Manufacturing Co.* on the ground that, unlike the wholesalers in *Dowagiac Manufacturing*, the defendant in *Manufacturing Co.* had manufactured the infringing product in the United States prior to the foreign sales. *Ibid.*

B. The Question Presented Is Important And Recurring

The availability of foreign lost profits as damages for domestic acts of patent infringement is of significant importance for patent owners and infringers alike. The court of appeals reversed the jury's award of lost profits as a matter of law. The court's judgment, which applies nationwide as a result of the Federal Circuit's exclusive appellate jurisdiction over cases arising under the patent laws, 28 U.S.C. 1295(a)(1), will systematically undercompensate patentees whenever an infringer's domestic activity directly and foreseeably causes the patent owner to lose profits he otherwise would have earned for sales or services provided overseas.

That result is particularly odd in the context of infringement under Section 271(f). Because Section 271(f) applies only when the defendant exports components of

a patented invention to induce assembly of the invention abroad, domestic violations of that provision are particularly likely to have foreign consequences. And the Federal Circuit has made the same analytical error in addressing damages for direct patent infringement under Section 271(a), construing its prior decision in *Power Integrations, Inc.* v. *Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (2013), cert. denied, 134 S. Ct. 900 (2014), as establishing a categorical bar to the recovery of damages that are proximately caused by domestic infringement but arise abroad, see Pet. App. 42a-43a. Since the decision below, moreover, the court of appeals has expanded its holding, apparently precluding consideration of foreign uses of a patented technology when determining royalties under Section 284. See *Carnegie Mellon Univ.* v. *Marvell Tech. Grp.*, Ltd., 807 F.3d 1283, 1307 (Fed. Cir. 2015). The court of appeals has thus firmly embraced the view that the presumption against extraterritoriality operates to bar U.S. patentees from recovering full compensation for domestic infringement.

As the dissent below observed, moreover, the court of appeals' prohibition against recovering foreign damages attributable to domestic patent infringement is in tension with appellate decisions calculating damages under the copyright laws. See Pet. App. 179a (Wallach, J., dissenting from the denial of the petition for rehearing en banc). The so-called "predicate act" doctrine in copyright law permits copyright owners "to recover damages flowing from exploitation abroad of the domestic acts of infringement committed by defendants." *Los Angeles News Serv.* v. *Reuters Television Int'l, Ltd.*, 149 F.3d 987, 992 (9th Cir. 1998), cert. denied, 525 U.S. 1141 (1999). The doctrine was first applied in an opinion by Learned Hand in 1939 that expressly relied on

this Court's patent-law opinions in *Manufacturing Co.* and *Dowagiac Manufacturing*. See *Sheldon* v. *Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52 (2d Cir.), cert. denied, 308 U.S. 617 (1939), and aff'd, 309 U.S. 390 (1940). It has since been adopted by two other courts of appeals and rejected by none. See *Tire Eng'g & Distrib., LLC* v. *Shandong Lindlong Rubber Co.*, 682 F.3d 292, 306-308 (4th Cir. 2012) (per curiam), cert. denied, 568 U.S. 1087 (2013); *Los Angeles News Serv.*, 149 F.3d at 991-992; see also *Update Art, Inc.* v. *Modiin Publ'g, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988).

To be sure, patent and copyright law "are not identical twins." *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984). With regard to the question presented here, however, the respective damages provisions of the Patent Act and Copyright Act of 1976, 17 U.S.C. 101 *et seq.*, afford no evident textual basis for adopting different rules in the two contexts. Compare 35 U.S.C. 284 (plaintiff in patent-infringement suit is entitled to damages "adequate to compensate for the infringement"), with 17 U.S.C. 504(b) (plaintiff in copyright-infringement suit "is entitled to recover the actual damages suffered by him or her as a result of the infringement"). The tension between the Federal Circuit's approach to patent law and the approach of other circuits to similar questions in copyright law underscores the need for this Court's review.

C. This Case Is A Suitable Vehicle For Resolving The Question Presented

Respondent contends (Br. in Opp. 27) that this case may become "largely moot," based on intervening decisions of the Patent Trial and Appeal Board (Board) in inter partes review. After the jury in this case had rendered its verdict, the Board held unpatentable four of

the six patent claims on which the jury had based its lost-profits award. See Final Written Decision at 3, 52, *Petroleum Geo-Servs. Inc.* v. *WesternGeco LLC*, No. IPR2014-689 (Dec. 15, 2015); Final Written Decision at 3, 53, *Petroleum Geo-Servs. Inc.* v. *WesternGeco LLC*, No. IPR2014-688 (Dec. 15, 2015); Final Written Decision at 3, 43, *Petroleum Geo-Servs., Inc.* v. *WesternGeco LLC*, No. IPR2014-687 (Dec. 15, 2015); see also Pet. App. 170a-171a, 174a-175a. Petitioner's consolidated appeals from those decisions are currently pending before the Federal Circuit, and oral argument has been scheduled for January 17, 2018. See *WesternGeco LLC* v. *Ion Geophysical Corp.*, No. 16-2099. Respondent argues (Br. in Opp. 26-27) that, if the court of appeals affirms the Board's decisions and those four claims are cancelled, the jury's award of lost-profits damages may be infirm.

Regardless of the Federal Circuit's disposition of the consolidated appeals, however, the remaining two claims on which the jury based its lost-profits award in this case will continue in force. The jury instructions—unchallenged in this respect by respondent—permitted the jury to award lost profits if it found infringement of "a valid patent claim." Jury Instruction No. 19, at 25. And even if the invalidation of the other four claims were to call into question the sustainability of the lost-profits award, there is no indication that petitioner's request for lost profits would be "so implausible that it is insufficient to preserve jurisdiction." *Chafin* v. *Chafin*, 568 U.S. 165, 174 (2013).

Respondent also argues (Br. in Opp. 3, 22, 24-26) that the court of appeals' judgment could be sustained on the alternative ground that lost profits should not be available because respondent and petitioner were not direct

competitors, which it contends is a requirement for any lost-profits award. Respondent raised that contention below, but the court of appeals did not reach it because it held lost profits unavailable on a different ground. If this Court reverses the court of appeals' *per se* bar against recovering foreign lost profits, respondent would be free to renew its alternative contention on remand. That possibility does not pose any obstacle to this Court resolving the question presented here.

Finally, respondent contends (Br. in Opp. 12-15) that further review is precluded because this Court previously granted review, vacated the court of appeals' initial judgment, and remanded this case to the court of appeals to address an issue of enhanced damages, without addressing the question presented here (which petitioner had also raised in its first petition for a writ of certiorari). But even if the Court's decision not to grant plenary review at that time on the lost-profits question is properly viewed as a denial of a writ of certiorari, "a prior denial of certiorari * * * does 'not establish the law of the case or amount to res judicata on the points raised.'" Stephen M. Shapiro et al., *Supreme Court Practice* 84 (10th ed. 2013) (quoting *Hughes Tool Co.* v. *Trans World Airlines, Inc.*, 409 U.S. 363, 365 n.1 (1973)). Petitioner therefore is not precluded from raising the issue again.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

NOEL J. FRANCISCO
Solicitor General
CHAD A. READLER
Principal Deputy Assistant Attorney General
MALCOLM L. STEWART
Deputy Solicitor General
JONATHAN Y. ELLIS
Assistant to the Solicitor General
MARK R. FREEMAN
JOSEPH F. BUSA
Attorneys

DECEMBER 2017

No. 16-1011

In the
Supreme Court of the United States

WESTERNGECO LLC,
Petitioner,

v.

ION GEOPHYSICAL CORPORATION,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

JOINT APPENDIX

KANNON K. SHANMUGAM
Counsel of Record
WILLIAMS & CONNOLLY LLP
725 Twelfth Street, NW
Washington, DC 20005
(202) 434-5000
kshanmugam@wc.com
Counsel for Respondent

PAUL D. CLEMENT
Counsel of Record
GREGG F. LOCASCIO, P.C.
JOHN C. O'QUINN
WILLIAM H. BURGESS
KIRKLAND & ELLIS LLP
655 Fifteenth Street, NW
Washington, DC 20005
(202) 879-5000
paul.clement@kirkland.com

TIMOTHY K. GILMAN
LESLIE M. SCHMIDT
KIRKLAND & ELLIS LLP
601 Lexington Avenue
New York, NY 10022
(202) 446-4800
Counsel for Petitioner

February 23, 2018

Petition for Writ of Certiorari Filed February 17, 2017
Petition for Writ of Certiorari Granted January 12, 2018

TABLE OF CONTENTS

WesternGeco LLC v. ION Geophysical Corporation, No. 13-1527 (Fed. Cir), Relevant Docket Entries JA-1

WesternGeco LLC v. ION Geophysical Corporation, No. 4:09-cv-01827 (S.D. Tex.), Relevant Docket Entries JA-14

WesternGeco LLC v. ION Geophysical Corporation, No. 4:09-cv-01827 (S.D. Tex.), Jury Instructions JA-36

WesternGeco LLC v. ION Geophysical Corporation, No. 4:09-cv-01827 (S.D. Tex.), Docket No. 665, Exhibit 3 ..... JA-81

The following opinions, decisions, judgments, and orders have been omitted in printing this joint appendix because they appear on the following page in the appendix to the Petition for Certiorari:

September 21, 2016 Opinion and Dissent, 837 F.3d 1358 (Fed. Cir.) 1a

July 2, 2015 Opinion and Dissent, 791 F.3d 1340 (Fed. Cir.) 23a

June 19, 2013 Memorandum and Order, 953 F. Supp. 2d 731 (S.D. Tex.) 76a

July 16, 2012 Memorandum and Order, 2012 WL 2911968 (S.D. Tex.) 141a

June 29, 2012 Memorandum and Order, 2012 WL 2568167 (S.D. Tex.) 155a

May 7, 2014 Final Judgment (S.D. Tex.) 168a

August 16, 2012 Jury Verdict (S.D. Tex.) 170a

October 30, 2015 Order Denying Rehearing, and Statement of Judge Wallach, Dissenting from Denial of Rehearing, 621 F. App'x 663 (Fed. Cir.)..... 176a

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

No. 13-1527

WESTERNGECO LLC

v.

ION GEOPHYSICAL CORPORATION

DOCKET ENTRIES

Date Filed	#	Docket Text
07/23/2013	1	Appeal docketed. Received: 07/23/2013. [93761] Entry of Appearance due 08/06/2013. Certificate of Interest is due on 08/06/2013. Docketing Statement due 08/06/2013. Appellant/Petitioner's brief is due 09/23/2013.
***		
09/19/2013	13	ORDER granting motion to stay appeal [8] filed by Appellant ION Geophysical Corporation and Appellee WesternGeco L.L.C. The parties are directed to inform this court within 14 days of the entry of final judgment by the district court how they believe this appeal should proceed. The

		parties further are directed to file status reports every 60 days. All pending motions [12] are moot. Service: 09/19/2013 by clerk. [104843]
		***
06/13/2014	21	ORDER filed. The stay is lifted in 2013-1527, 2014-1121. Appeal Nos. 2013-1527, 2014-1121, 2014-1526, and 2014-1528 are consolidated. The revised official caption is reflected in the order. Ion Geophysical Corporation's opening brief is due no later than September 4, 2014. WesternGeco LLC's opening brief is due no later than October 21, 2014. Ion Geophysical Corporation's reply brief is due no later than December 8, 2014. WesternGeco LLC's reply brief is due no later than December 29, 2014. The joint appendix is due no later than January 5, 2015. Service: 06/13/2014 by clerk. [161379] [13-1527, 14-1526]
		***
09/05/2014	62	TENDERED from Appellant ION Geophysical Corporation. Title: CORRECTED OPENING BRIEF. Service: 09/05/2014 by email. [180284]

09/05/2014	63	TENDERED from Appellant ION Geophysical Corporation. Title: CORRECTED CONFIDENTIAL OPENING BRIEF Service: 09/05/2014 by email. [180362]
09/05/2014	64	CONFIDENTIAL BRIEF FILED for Appellant ION Geophysical Corporation [63]. Title: CONFIDENTIAL CORRECTED OPENING BRIEF. Number of Pages: 59. Service: 09/05/2014 by email. Pursuant to ECF-10(B) six paper copies should be filed of the confidential version only. [180368]
09/05/2014	65	BRIEF FILED for Appellant ION Geophysical Corporation [62]. Title: CORRECTED OPENING BRIEF. Number of Pages: 59. Service: 09/05/2014 by email. Pursuant to ECF-10, filer is directed to file six copies of the brief in paper format. The paper copies of the brief should be received by the court on or before 09/10/2014. Cross-Appellant WesternGeco L.L.C. brief is due 10/21/2014. [180372]
09/08/2014	66	6 paper copies of the 1st brief Brief [65] received from Appellant ION Geophysical Corporation. [180745]

10/21/2014	67	TENDERED from Cross-Appellant WesternGeco L.L.C.. Title: OPENING BRIEF. Service: 10/21/2014 by email. [191500]
10/21/2014	68	BRIEF FILED for Cross-Appellant WesternGeco L.L.C. [67]. Title: OPENING BRIEF. Number of Pages: 89. Service: 10/21/2014 by email. Pursuant to ECF-10, filer is directed to file six copies of the brief in paper format. The paper copies of the brief should be received by the court on or before 10/28/2014. Appellant's reply brief is due 12/08/2014. [191866]--[Edited 11/10/2014 by SW]
10/29/2014	69	6 paper copies of the Opening Response Brief [68] received from Cross-Appellant WesternGeco L.L.C.. [193419]
***		
12/09/2014	78	TENDERED from Appellant ION Geophysical Corporation. Title: CORRECTED REPLY BRIEF. Service: 12/09/2014 by email. [203002]
12/10/2014	79	CORRECTED REPLY BRIEF FILED for Appellant ION Geophysical Corporation [78]. Number of Pages: 54. Service: 12/10/2014 by email. Pursuant to

		ECF-10, filer is directed to file six copies of the brief in paper format. Cross-Appellant's reply brief is due 12/29/2014. The paper copies of the brief should be received by the court on or before 12/15/2014. [203060]
12/11/2014	80	6 paper copies of the Reply Brief [79] received from Appellant ION Geophysical Corporation. [203431]
12/29/2014	81	TENDERED from Cross-Appellant WesternGeco L.L.C.. Title: REPLY BRIEF. Service: 12/29/2014 by email. [206437]
01/05/2015	82	Statement of Compliance with Fed. Cir. R. 33 for Appellant ION Geophysical Corporation and Cross-Appellant WesternGeco L.L.C.. Service: 01/05/2015 by email. [207275]
01/05/2015	83	TENDERED from Appellant ION Geophysical Corporation and Cross-Appellant WesternGeco L.L.C.. Title: CONFIDENTIAL JOINT APPENDIX Service: 01/05/2015 by email. [207333]
01/05/2015	84	TENDERED from Appellant ION Geophysical Corporation and Cross-Appellant WesternGeco L.L.C.. Title: JOINT APPENDIX.

		Service: 01/05/2015 by email. [207337]
12/29/2014	85	REPLY BRIEF FILED for Cross-Appellant WesternGeco L.L.C. [81]. Number of Pages: 29. Service: 12/29/2014 by email. Pursuant to ECF-10, filer is directed to file six copies of the brief in paper format. The paper copies of the brief should be received by the court on or before 01/12/2015. [207428]
01/05/2015	86	CONFIDENTIAL JOINT APPENDIX FILED for ION Geophysical Corporation [83]. Number of Pages: 2086. Service: 01/05/2015 by US mail. Pursuant to ECF-10 six paper copies should be filed of the confidential version only. [207914]
01/05/2015	87	APPENDIX FILED for ION Geophysical Corporation [84]. Number of Pages: 2076. Service: 01/05/2015 by email. Pursuant to ECF-10, filer is directed to file six copies of the brief in paper format. The paper copies of the brief should be received by the court on or before 01/12/2015. [207917]
01/09/2015	88	6 paper copies of the Reply Brief [85] received from Cross-

		Appellant WesternGeco L.L.C.. [208613]
01/09/2015	89	6 paper copies of the appendix Brief [86] received from Appellant ION Geophysical Corporation. [208652]
01/21/2015	90	NOTICE OF CALENDARING. Panel: 1503L. Case scheduled Mar 05, 2015 10:00 a.m. at the United States Court of Appeals for the Federal Circuit (Howard T. Markey National Courts Building, 717 Madison Place, N.W. Washington, DC 20439), Courtroom 203. Response to oral argument order due: 02/17/2015. Counsel should check-in 30 minutes prior to the opening of the session. Please review the Oral Argument Order. [211194] THIS NOTICE APPLIES TO CASE(S): [14-1774, 14-1469, 13-1527, 14-1486]
01/26/2015	91	MOTION of Appellant ION Geophysical Corporation to stay appeal. Response/Opposition is due 02/05/2015 [Consent: opposed]. Service: 01/26/2015 by hand delivery. [212519]--[Edited 01/26/2015 by SW]
02/02/2015	92	ORDER filed denying [91] motion to stay appeal filed by ION Geophysical Corporation. By:

		Merits Panel (Per Curiam). Service as of this date by Clerk of Court. [214485]
		***
03/06/2015	96	Submitted after ORAL ARGUMENT by David J. Healey for ION Geophysical Corporation and Gregg F. LoCascio for WesternGeco L.L.C.. Panel: Judge: Dyk , Judge: Wallach , Judge: Hughes. [222122]
07/02/2015	97	OPINION and JUDGMENT filed. The judgment or decision is: Affirmed-in-part, Reversed-in-part, and Remanded. (Precedential Opinion). (For the Court: Dyk,Circuit Judge; Wallach,Circuit Judge and Hughes,Circuit Judge). Dissenting-in-part opinion filed by Circuit Judge Wallach. [253149] [13-1527, 14-1121, 14-1526, 14-1528] Vacated pursuant to court order. See Doc. No. [127]
		***
07/29/2015	100	Petition for en banc rehearing filed by Cross-Appellant WesternGeco L.L.C.. Service: 07/29/2015 by email. *The paper copies of the petition must be filed*

		within two business days (see ECF-10(d)).The required paper copies should be received by the court on or before 07/31/2015 [260293]
		***
08/12/2015	106	MOTION of Carnegie Mellon University for leave to file amicus brief in support of WesternGeco L.L.C. on petition for en banc rehearing [100]. Response/Opposition is due 08/27/2015 [Consent: partial consent]. Service: 08/12/2015 by email. [263694]
08/12/2015	107	TENDERED from Carnegie Mellon University Title: AMICUS CURIAE BRIEF. Service: 08/12/2015 by email. [263697]
		***
08/19/2015	109	ORDER filed granting motion to file amicus brief on en banc or rehearing petition [106]. By: (Per Curiam). Service as of this date by Clerk of Court. [265565]
08/19/2015	110	AMICUS BRIEF FILED on Petition for Carnegie Mellon University. Pages: 9. Pursuant to ECF-10(D), the filer is directed to submit the approriate number of copies within two days. [265579]

08/20/2015	111	The court invites a response from Appellant ION Geophysical Corporation to the petition for en banc rehearing filed by Cross-Appellant in 13-1527. [265664]
***		
09/03/2015	114	RESPONSE of Appellant ION Geophysical Corporation to the petition for en banc rehearing [100] filed by Cross-Appellant WesternGeco L.L.C. in 13-1527. Service: 09/03/2015 by email. [269565]
10/30/2015	115	ORDER filed denying [100] petition for en banc rehearing filed by WesternGeco L.L.C. By: En Banc (Per Curiam). Service as of this date by Clerk of Court. [284727]
11/06/2015	116	Mandate issued to the United States District Court for the Southern District of Texas. Service as of this date by Clerk of Court. [286918] [13-1527, 14-1121, 14-1526, 14-1528] Mandate recalled pursuant to 07/25/2016 court order [127]
***		
02/26/2016	123	Petition for writ of Certiorari filed on 02/26/2016 in the Supreme Court of the United States. Supreme Court #: 15-

		1085, WesternGeco L.L.C. v. ION Geophysical Corporation. [314818]
		***
06/20/2016	125	The petition for writ of certiorari, [15-1085], was Granted on 06/20/2016. The judgment or decision is Vacated and Remanded. [345230]
07/22/2016	126	Certified judgment of the Supreme Court of the United States issued on 06/20/2016 for 15-1085. [352862]
07/25/2016	127	ORDER filed recalling mandate; reopening appeal; vacating the Precedential Opinion [97]. By: (Per Curiam). Service as of this date by Clerk of Court. [353274] [13-1527, 14-1121, 14-1526, 14-1528]
		***
08/22/2016	129	MOTION of Cross-Appellant WesternGeco L.L.C. To Remand. Response/Opposition is due 09/06/2016 [Consent: opposed]. Service: 08/22/2016 by email. [360893]
09/06/2016	130	RESPONSE of Appellant ION Geophysical Corporation to the motion for other relief [129] filed by Cross-Appellant WesternGeco

		L.L.C. in 13-1527. Service: 09/06/2016 by email. [364551]
09/15/2016	131	REPLY of Cross-Appellant WesternGeco L.L.C. to response filed by Appellant in 13-1527 , Doc. No [130]. Service: 09/15/2016 by email. [366587]
09/21/2016	132	OPINION and JUDGMENT filed. The judgment or decision is: Affirmed-in-part, Reversed-in-part, Vacated-in-part, and Remanded. Denying as moot motion to remand [129] filed by Cross-Appellant WesternGeco L.L.C. in 13-1527; (Precedential Opinion). (For the Court: Dyk,Circuit Judge; Wallach,Circuit Judge and Hughes,Circuit Judge). Opinion dissenting in part filed by Circuit Judge Wallach. [368011] [13-1527, 14-1121, 14-1526, 14-1528]
		***
10/14/2016	136	ORDER granting motion to issue mandate [133] filed by Cross-Appellant WesternGeco L.L.C. in 13-1527; issuing mandate in 13-1527, 14-1121, 14-1526, 14-1528. Service as of this date by Clerk of Court. [374531] [13-1527, 14-1121, 14-1526, 14-1528]
		***

02/17/2017	138	Petition for writ of Certiorari filed on 02/17/2017 in the Supreme Court of the United States. Supreme Court #: 16-1011, WesternGeco L.L.C. v. ION Geophysical Corporation. [409362] [13-1527, 14-1121, 14-1526, 14-1528]
01/17/2018	139	The petition for writ of certiorari, [16-1011], filed on 02/17/2017, was Granted on 01/12/2018. [490131]

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

No. 4:09-cv-01827

WESTERNGECO LLC

v.

ION GEOPHYSICAL CORPORATION

DOCKET ENTRIES

Date Filed	#	Docket Text
06/12/2009	1	COMPLAINT against ION Geophysical Corporation (Filing fee $ 350 receipt number 05410000000005147763) filed by WesternGeco LLC. (Attachments: # 1 Exhibit A, # 2 Exhibit B, # 3 Exhibit C, # 4 Exhibit D, # 5 Exhibit E, # 6 Civil Cover Sheet)(Kaplan, Lee) (Entered: 06/12/2009)
		***
06/16/2009	6	ANSWER to 1 Complaint, with Jury Demand, COUNTERCLAIM against WesternGeco LLC by ION Geophysical Corporation, filed. (Attachments: # 1 Exhibit A (Confidential Disclosure

		Agreement), # 2 Exhibit B—Amendment dated December 8, 1997, # 3 Exhibit C—992 Patent)(Burgert, David) (Entered: 06/16/2009)
***		
07/09/2009	14	ANSWER to 6 Answer to Complaint, Counterclaim,, with Jury Demand by WesternGeco LLC, filed. (Attachments: # 1 Affidavit of Lee Kaplan)(Kaplan, Lee) (Entered: 07/09/2009)
***		
07/16/2010	120	MEMORANDUM AND ORDER. (Signed by Judge Keith P Ellison) Parties notified. (sloewe) (Entered: 07/16/2010)
***		
03/14/2011	145	AMENDED Complaint with Jury Demand against Fugro (USA), Inc., Fugro Geoservices, Inc., Fugro Inc, Fugro Norway Marine Services AS, Fugro-Geoteam AS, Fugro-Geoteam Inc. filed by WesternGeco LLC. (Attachments: # 1 Exhibit A, # 2 Exhibit B, # 3 Exhibit C, # 4 Exhibit D, # 5 Exhibit E, # 6 Exhibit F, # 7 Exhibit G)(Kaplan, Lee) (Entered: 03/14/2011)
***		

08/26/2011	165	ANSWER to 145 Amended Complaint/Counterclaim/Crosscl aim etc., with Jury Demand by Fugro (USA), Inc., Fugro Geoservices, Inc., Fugro-Geoteam Inc., Fugro Norway Marine Services AS, Fugro Inc, Fugro-Geoteam AS, COUNTERCLAIM against Plaintiff by Fugro-Geoteam Inc., filed.(Saunders, Jason) Filers corrected on 8/29/2011 (ltien,). (Entered: 08/26/2011)
		***
06/29/2012	372	MEMORANDUM AND ORDER GRANTING IN PART AND DENYING IN PART Doc. 276 (Signed by Judge Keith P Ellison) Parties notified. (sloewe) (Entered: 06/29/2012)
		***
07/13/2012		Minute Entry for proceedings held before Judge Keith P Ellison. FINAL PRETRIAL CONFERENCE held on 7/13/2012. Rulings made on the record. Appearances:(Law Clerk: Emerson). James M Thompson, Jason Allan Saunders, David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce, Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg LoCascio.(Court

		Reporter: Malone), filed.(sloewe) (Entered: 07/13/2012)
07/16/2012	402	MEMORANDUM AND ORDER granting in part denying in part 350 Sealed Event, granting in part denying in part 356 Sealed Event (Signed by Judge Keith P Ellison) Parties notified. (arrivera,) (Entered: 07/16/2012)
		***
07/23/2012		Minute Entry for proceedings held before Judge Keith P Ellison. FIRST day of JURY TRIAL held on 7/23/2012 terminated 409 Sealed Event, denying 422 Sealed Event. Trial resumes at 7:30 a.m. Appearances:(Law Clerk: Emerson) Christine Raborn, Gordon Arnold, Eric Wade, Jonna Stallings, Susan Hellinger, Tom Scoulios, Raymond Sims,. David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce, Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg LoCascio.(Court Reporter: Malone/Sanchez), filed.(sloewe) (Entered: 07/23/2012)
		***

07/24/2012		Minute Entry for proceedings held before Judge Keith P Ellison. SECOND day of JURY TRIAL held on 7/24/2012. Testifying witnesses: Thomas Scoulios, Simon Bittleston. Plaintiff's Admitted Exhibits: 1-3, 5, 95, 594, 766, 126, 764, 770, 767, 746, 73, 85, 56, 98, 50, 32. Deft's Exhibits: 47, 55, 224,225, 229, 234 977, 1019, 758(a) and 758(b) ONLY. FOR THE RECORD ONLY: Bittleston DEMO001-24 and Scoulious DEMO001-11, Scoulios Demo 10. Trial resumes tomorrow at 7:30 a.m. Appearances:(Law Clerk: Emerson) Michael Streich Christine Raborn, Gordon Arnold, Eric Wade, Jonna Stallings, Susan Hellinger, Tom Scoulios, Raymond Sims,. David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce, Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg LoCascio.(Court Reporter: Malone / Sanchez), filed.(sloewe) Modified on 7/25/2012 (sloewe). Modified on 7/31/2012 (sloewe,). (Entered: 07/24/2012)
***		

07/25/2012		Minute Entry for proceedings held before Judge Keith P Ellison. THIRD day of JURY TRIAL held on 7/25/2012. Testifying witness: Dr. Simon Bittleston. Admitted Plaintiff Exhibits: 65, 58. Admitted Defendant Fugro Exhibits: 65, 20, 22, 16, 46, 90, 350, 62, 479, 24, 408, 889 (over objection). Admitted Ion Ion Exhibit 54 (WG0024535-57 only), 156 (3 photos only). Admitted Demonstrative Exhbit for the record only FD001, and WG 1A- (the modification of FD001). Trial resumes at 7:30 a.m. tomorrow. Appearances:(Law Clerk: Joelle Emerson) (Law Clerk: Joelle Emerson) Leslie Schmidt, Michael Streich Christine Raborn, Gordon Arnold, Eric Wade, Jonna Stallings, Susan Hellinger, Tom Scoulios, Raymond Sims,. David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce, Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg LoCascio.(Court Reporter: Malone), filed.(sloewe) Modified on 7/26/2012 (sloewe). Modified on 8/13/2012 (sloewe,). (Entered: 07/25/2012)

***		
07/26/2012		Minute Entry for proceedings held before Judge Keith P Ellison. FOURTH day of JURY TRIAL held on 7/26/2012. Testifying witnesses: Mark Zajac, and Leif Morten By. Admitted Plaintiff Exhibits: 474, 636, 295, 429, 296, 297, 322, 1004, 290, 403, 380, 492, 1008, 333, 1017, 1018, 18, 19, 512, 20, 1019, 1000, 1002, 1003 and 460. ION Admitted Exhibits: 66, 204, 71, 77, 78, 81, 82, 80, and 100. Defendant Fugro's Exhs: 852, 123, and 1124. For the record only the following Demonstrative Exhibits are ADMITTED: FD By Demo 001 FD by Demo 002, FD Video 01, FD Video 02, FD Video 03, FD Video 04, FD Demo 002. Trial resumes at 7:30 a.m. tomorrow. Appearances:(Law Clerk: Joelle Emerson) (Law Clerk: Joelle Emerson) Leslie Schmidt, Michael Streich Christine Raborn, Gordon Arnold, Eric Wade, Jonna Stallings, Susan Hellinger, Tom Scoulios, Raymond Sims,. David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce, Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg

		LoCascio.(Court Reporter: Sanchez ALL DAY), filed.(sloewe) Modified on 7/27/2012 (sloewe). Modified on 7/27/2012 (sloewe). Modified on 7/31/2012 (sloewe). (Entered: 07/26/2012)
		***
07/27/2012		Minute Entry for proceedings held before Judge Keith P Ellison. FIFTH day of JURY TRIAL held on 7/27/2012. Testifying witnesses: Leif Morten By, Dr. Michael Triantafyllou, Dr. John Leonard. Admitted Plaintiff Exhibits: 27, 44, 008, 009, 117, 120, 206, 227, 509, 8, 171, 273, 274, 282, and 561. ION's Admitted Exhibits: Ex 1. Plaintiff's Dem. Exhibits for the record ONLY: PTX 35, and FD0231, FD0260, and FD0218. WG By Demo 1, Triantafyllou 001-092, ION's T1-T7, T9, T12, T17, T19, ION DEMO. 3, ION DEMO 4, Fugro-Geoteam Dr. T1, Leonard DEMO001-11 Appearances::(Law Clerk: Joelle Emerson) (Law Clerk: Joelle Emerson) Leslie Schmidt, Michael Streich Christine Raborn, Gordon Arnold, Eric Wade, Jonna Stallings, Susan

		Hellinger, Tom Scoulios, Raymond Sims,. David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce, Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg LoCascio.(Court Reporter: Sanchez ALL DAY). Trial resumes at 7:15 a.m., filed.(sloewe) Modified on 7/31/2012 (sloewe). Modified on 7/31/2012 (sloewe). (Entered: 07/27/2012)
		***
07/30/2012		Minute Entry for proceedings held before Judge Keith P Ellison. SIXTH day of JURY TRIAL held on 7/30/2012. Testifying witnesses: Robin Walker by Deposition Paul Winspear. Admitted Plaintiff Exhibits: 114, 547, 742, 94, 594, 543, 822, 132. ION's Exhibits: 259, 260, 258, 263, 274, 99, 178, 269,268, 74, 229, 271, 207. Fugro's Admitted Exhibits: 1027, 1046, 1047, and 265. Demonstrative Exhibits FOR THE RECORD ONLY admitted: FD Walker Demo 001, and FD Walker Demo 002, Walker DEMO001-22, Walker Demo 1A and 2A, Walker ION Demo 1, 2, and 3, Demo 20A, Demo 21A, and

		Demo 22A, PTX 126, 128 Appearances:Law Clerk: Joelle Emerson) (Law Clerk: Joelle Emerson) Leslie Schmidt, Michael Streich Christine Raborn, Gordon Arnold, Eric Wade, Jonna Stallings, Susan Hellinger, Tom Scoulios, Raymond Sims,. David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce, Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg LoCascio.(Court Reporter: Sanchez/Malone), filed.(sloewe) Modified on 7/31/2012 (sloewe). (Entered: 07/30/2012)
	***	
07/31/2012		Minute Entry for proceedings held before Judge Keith P Ellison. SEVENTH day of JURY TRIAL held on 7/31/2012. Paul Winspear by deposition, David Moffat by deposition, Crawford McNabb by deposition, Glenn Morton, Jeffrey Cunkelman, Ronny Bohn, and Dale Lambert by deposition, Ray Sims. Plaintiff's Admitted Exhibits: 20, 28, 6, 9, 206, 214, 359, 485 247 306, 398, 214 213,6,463, 290, 343, 16, PTX 12, 13, 14, 15, 17, 18, 22, 23, 25, 30, 32, 45, 48, 49, 319, 342,

		364, 388, 416, 486. ION's 178. For the RECORD ONLY: WG MORTON DEMO001-014, WG Sims Demo 001-032, Morton Demo IA to the Record Only. Trial will resume at 7:30 tomorrow morning. Appearances:(Law Clerk: Joelle Emerson) Leslie Schmidt, Michael Streich Christine Raborn, Gordon Arnold, Eric Wade, Jonna Stallings, Susan Hellinger, Tom Scoulios, Raymond Sims,. David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce, Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg LoCascio.(Court Reporter: Sanchez / Malone), filed.(sloewe) Modified on 8/13/2012 (sloewe). (Entered: 07/31/2012)
***		
08/01/2012		Minute Entry for proceedings held before Judge Keith P Ellison. EIGHTH day of JURY TRIAL held on 8/1/2012. Testifying witness: Ray Sims. Admitted Plaintiff Exhibits: 6, 7, 14, 58, 1, 17, 28, 32, 94, 164, 197, 214, 230, 233, 245, 250, 257, 261, 309, 312, 313, 359, 363, 364, 365, 375, 380, 385, 386, 388, 394, 398,

		403, 425, 429, 457, 463, 473, 485, 486, 492, 507, 543, 544, 571, 594,650, 655, 680, 682, 724, 725, 742, 822, 834, 835 857, 902, 903, 920, 938, 941, 942, 943, 944, 945, 458. ION EXHIBIT 269. FUGRO EXHIBITS: 228, 234, 236, 237, 240, 241, 258, 259, 266, 267, 273, 276, and 277 1087, 1086, 1018, 571, 1136, 1050, 0291, FD0213, FD0240, FD0279, FD1029. FOR THE RECORD ONLY: Plaintiff's Sims Demo 001a Sims Demo 32-106, FD Sims 01-06. TRIAL RESUMES AT 7:30 tomorrow morning. Appearances:(Law Clerk: Joelle Emerson) Leslie Schmidt, Michael Streich Christine Raborn, Gordon Arnold, Eric Wade, Jonna Stallings, Susan Hellinger, Tom Scoulios, Raymond Sims,. David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce, Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg LoCascio.(Court Reporter: Sanchez / Malone), filed.(sloewe) Modified on 8/2/2012 (sloewe). Modified on 8/2/2012 (sloewe,). Modified on 8/13/2012 (sloewe,). (Entered: 08/01/2012)
***		

08/02/2012		Minute Entry for proceedings held before Judge Keith P Ellison. NINTH day of JURY TRIAL held on 8/2/2012. :(Law Clerk: Joelle Emerson) Leslie Schmidt, Michael Streich Christine Raborn, Gordon Arnold, Eric Wade, Jonna Stallings, Susan Hellinger, Tom Scoulios, Raymond Sims,. David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce, Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg LoCascio. Plaintiff rests. Several judgments of a matter of law filed and held. Testifying witness: Ray Sims, Helen Christensen, David Gentle, KEvin douglas Stiver, David Moffat. Appearances:(Court Reporter: Malone), filed.(sloewe) (Entered: 08/02/2012)
***		
08/03/2012		Minute Entry for proceedings held before Judge Keith P Ellison. TENTH day of JURY TRIAL held on 8/3/2012. David Moffat, Thomas Edgar, Andre Oliviere, Oyvind Hillesund. PTX 22, 26, 32, 38, 250, 350, 360, 436, 441, 473, 483, 484, 571, 880, 922A, 922B, 1022, 1023, FD 242,

		278, 279, 291, 1136. ION ADMITTED EXHIBITS: 125, 252, 129, 397, 189, 338, 360. FOR THE RECORD ONLY: ION 11. Moffat Demo 1-20. WG Moffat Demo 1, WG Moffat Demo 2, WG Moffat Demo 3. Appearances::(Law Clerk: Joelle Emerson) Leslie Schmidt, Michael Streich Christine Raborn, Gordon Arnold, Eric Wade, Jonna Stallings, Susan Hellinger, Tom Scoulios, Raymond Sims,. David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce, Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg LoCascio.(Court Reporter: Sanchez / Malone), filed.(sloewe) Modified on 8/9/2012 (sloewe). (Entered: 08/06/2012)
***		
08/07/2012		Minute Entry for proceedings held before Judge Keith P Ellison. ELEVENTH day of JURY TRIAL held on 8/7/2012. Crawford McNab, Dane Seale, Oyvind Hillesund, Charles J. Ledet, Kenneth Eugene Welker, James Martin, and Robert Brune. Admitted Plaintiff Exhibits: 9 206, 008, 269, 389,

		934. Admitted ION Exhibits: 54, 138, 152, 248, 130, 453A, 337A, 303, 130, 125, 177 64. Admitted Fugro Exhibits: 774, 775, 555, 558. Trial resumes at 7:30 a.m. Appearances:(Law Clerk: Joelle Emerson) Leslie Schmidt, Michael Streich Christine Raborn, Gordon Arnold, Eric Wade, Jonna Stallings, Susan Hellinger, Tom Scoulios, Raymond Sims,. David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce, Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg LoCascio..(Court Reporter: Sanchez / Malone)., filed.(sloewe)
		***
08/08/2012		Minute Entry for proceedings held before Judge Keith P Ellison. TWELVTH day of JURY TRIAL held on 8/8/2012. Robert Brune, and Kenneth Williams. ADMITTED PLAINTIFF EXHIBITS: 44, 237, Admitted ION Exhibits: 19, 266, 18. Trial resumes at 7:30 tomorrow morning. Appearances:Appearances:(Law Clerk: Joelle Emerson) Leslie Schmidt, Michael Streich Christine Raborn, Gordon

		Arnold, Eric Wade, Jonna Stallings, Susan Hellinger, Tom Scoulios, Raymond Sims,. David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce, Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg LoCascio., filed.(sloewe) (Entered: 08/08/2012)
	***	
08/09/2012		Minute Entry for proceedings held before Judge Keith P Ellison. THIRTEENTH day of JURY TRIAL held on 8/9/2012. Testifying witnesses: Kenneth Williamson, Phillip Lunde, David Gentle, Robert Peebler. Admitted Plaintiff's Exhibits:22, 23, 38, 39, 875, 948,947, 949, 950,38, 39, 71, 164, 161, 162, 242, 244, 946. ION's Admitted Exhibits: 252, 126, 125, 304. Jury Charge Conference at 8:15 a.m. no Jury. Jury Trial resumes Monday at 7:30 a.m. Appearances:(Law Clerk: Joelle Emerson) Leslie Schmidt, Michael Streich Christine Raborn, Gordon Arnold, Eric Wade, Jonna Stallings, Susan Hellinger, Tom Scoulios, Raymond Sims,. David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce,

		Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg LoCascio., filed.(sloewe) Modified on 8/13/2012 (sloewe). (Entered: 08/09/2012)
		***
08/13/2012		Minute Entry for proceedings held before Judge Keith P Ellison. FOURTEENTH day of JURY TRIAL held on 8/13/2012. Testifying witnesses: Robert Peebler, Jens Olav Paulsen by Depo, Atle Jacobsen by Depo, Julie Margaret Branton by Depo, Kayleen Robinson by depo, Lance Gunderson. Exhibit Objections, and Final Charge Conference Appearances:(Court Reporter: Malone / Sanchez), filed.(sloewe,) (Entered: 08/13/2012)
		***
08/13/2012	525	ORDER granting Joint Motion and Stipulation of Dismissal. (Fugro-Geoteam Inc., Fugro-Geoteam Inc. and Fugro-Geoteam AS terminated). (Signed by Judge Keith P Ellison) Parties notified. (bthomas,) (Entered: 08/15/2012)
		***
08/14/2012		Minute Entry for proceedings held before Judge Keith P

		Ellison. FIFTEENTH day of JURY TRIAL held on 8/14/2012. Testifying Witness: Lance Gunderson. Plaintiff's Adimitted Exhibits: 25, 514, 166, 164, 315, 492, 6, 952, 197, 313, 247, 250, 233, 951, 131A, 954, 471, 680, 655. ION's 125, 8 and Fugro's 407. Appearances::(Law Clerk: Joelle Emerson) Leslie Schmidt, Michael Streich Christine Raborn, Gordon Arnold, Eric Wade, Jonna Stallings, Susan Hellinger, Tom Scoulios, Raymond Sims,. David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce, Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg LoCascio.(Court Reporter: Malone / Sanchez), filed.(sloewe) (Entered: 08/14/2012)
***		
08/14/2012	530	Jury Charge, filed.(sloewe) (Entered: 08/15/2012)
***		
08/15/2012		Minute Entry for proceedings held before Judge Keith P Ellison. SIXTEENTH day of JURY TRIAL held on 8/15/2012. CERTIFICATION OF EXHIBITS. CLOSING ARGUMENTS. JURY

		DELIBERATES. Appearances: (Law Clerk: Joelle Emerson) Leslie Schmidt, Michael Streich Christine Raborn, Gordon Arnold, Eric Wade, Jonna Stallings, Susan Hellinger, Tom Scoulios, Raymond Sims,. David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce, Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg LoCascio., filed.(sloewe) (Entered: 08/17/2012)
***		
08/16/2012		Minute Entry for proceedings held before Judge Keith P Ellison. SEVENTEENTH day of JURY TRIAL held on 8/16/2012. JURY DELIBERATES. QUESTION 1 ASKED AND ANSWERED. JURY REACHED VERDICT. VERDICT FOR PLAINTIFF. Appearances:(Law Clerk: Joelle Emerson) Leslie Schmidt, Michael Streich Christine Raborn, Gordon Arnold, Eric Wade, Jonna Stallings, Susan Hellinger, Tom Scoulios, Raymond Sims,. David Lee Burgert, Ray Thomas Torgerson, Jonathan M Pierce, Sarah K. Tsou, Lee L Kaplan, Timothy K Gilman, Gregg

		LoCascio. COURT REPORTER MAYRA MALONE., filed.(sloewe) (Entered: 08/17/2012)
		***
08/16/2012	536	JURY VERDICT in favor of WesternGeco LLC, filed. (bthomas,) (Additional attachment(s) added on 8/17/2012: # 1 unredacted) (bthomas,). (Entered: 08/17/2012)
		***
06/19/2013	634	MEMORANDUM AND ORDER DENYING 562 MOTION for *JMOL, Motion for New Trial on Damages alternatively Motion for Remittitur* Judgment, DENYING 552 MOTION for New Trial, 565 MOTION to Dismiss *for Lack of Subject Matter Jurisdiction*, DENYING 609 Opposed MOTION to Compel Production of Documents from Plaintiff WesternGeco LLC, 555 Sealed Event, GRANTING 559 MOTION for *Entry of Findings and Conclusions of No Willful Infringement, Renewed Motion for Judgment as a Matter of Law of No Willful Infringement, and Alternative Motion for New Trial* Judgment, DENYING 557

		MOTION for New Trial, 550 MOTION for New Trial, DENYING 561 MOTION for *JMOL and New Trial Due to Incorrect Claim Construction* Judgment (Signed by Judge Keith P Ellison) Parties notified.(sloewe) (Entered: 06/19/2013)
***		
10/24/2013	661	Sealed Order, filed. (Entered: 10/24/2013)
***		
04/23/2014	685	Sealed Event, filed. (With attachments) (Entered: 04/23/2014)
04/30/2014	686	Sealed Order, filed. (Entered: 04/30/2014)
05/07/2014	687	FINAL JUDGMENT. Case terminated on 05/07//2014(Signed by Judge Keith P Ellison) Parties notified.(sloewe, 4) (Entered: 05/07/2014)
***		
03/14/2017		Minute Entry for proceedings held before Judge Keith P Ellison. MOTION HEARING held on 3/14/2017 751 Sealed Event. After hearing arguments from the parties, WesternGeco's

		Motion for Enhanced Damages granted. ION ordered to pay five million dollars in enhanced damages. Appearances: Jarrod Wayne Stone, David J Healey, Justin M Barnes, Brian Gregory Strand, Lee L Kaplan, Timothy K Gilman, Gregg F. LoCascio, Leslie M. Schmidt.(Court Reporter: M. Malone), filed.(arrivera, 4) (Entered: 03/17/2017)
	***	
07/26/2017	770	FINAL JUDGMENT. Case terminated on July 26th, 2017. (Signed by Judge Keith P Ellison) Parties notified.(rosaldana, 4) (Entered: 07/26/2017)

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

No. 4:09-cv-01827

WESTERNGECO LLC,
Plaintiff,

v.

ION GEOPHYSICAL CORPORATION
Defendant.

JURY INSTRUCTIONS

INSTRUCTION NO. 1

GENERAL INSTRUCTIONS

MEMBERS OF THE JURY:

You have heard the evidence in this case. I will now instruct you on the law that you must apply. It is your duty to follow the law as I give it to you. On the other hand, you the jury are the judges of the facts. Do not consider any statement that I have made in the course of trial or make in these instructions as an indication that I have any opinion about the facts of this case.

Answer each question from the facts as you find them. Do not decide who you think should win and then answer the questions accordingly. Your answers and your verdict must be unanimous.

When instructed, you will answer questions based upon the preponderance of the evidence. By this is meant the greater weight and degree of credible evidence before you. In other words, a preponderance of the evidence just means the amount of evidence that persuades you that a claim is more likely so than not so. In determining whether any fact has been proved by a preponderance of the evidence in the case, you may, unless otherwise instructed, consider the testimony of all witnesses, regardless of who may have called them, and all exhibits received in evidence, regardless of who may have produced them.

You will answer some questions based upon clear and convincing evidence. Clear and convincing evidence is evidence that produces in your mind a firm belief or conviction as to the matter at issue. This involves a greater degree of persuasion than is necessary to meet the preponderance of the evidence standard; however, proof to an absolute certainty is not required.

You must decide whether the testimony of each of the witnesses is truthful and accurate, in part, in whole, or not at all. You also must decide what weight, if any, you give to the testimony of each witness.

In evaluating the testimony of any witness, you may consider, among other things:

- the ability and opportunity the witness had to see, hear, or know the things that the witness testified about;
- the witness's memory;
- any interest, bias, or prejudice the witness may have;
- the witness's intelligence;

- the manner of the witness while testifying; and
- the reasonableness of the witness's testimony in light of all the evidence in the case.

In determining the weight to give to the testimony of a witness, you should ask yourself whether there was evidence tending to prove that the witness testified falsely concerning some important fact, or whether there was evidence that at some other time the witness said or did something, or failed to say or do something, that was different from the testimony the witness gave before you during the trial.

You should keep in mind, of course, that a simple mistake by a witness does not necessarily mean that the witness was not telling the truth as he or she remembers it, because people may forget some things or remember other things inaccurately. So, if a witness has made a misstatement, you need to consider whether that misstatement was an intentional falsehood or simply an innocent lapse of memory; and the significance of that may depend on whether it has to do with an important fact or with only an unimportant detail.

While you should consider only the evidence in this case, you are permitted to draw such reasonable inferences from the testimony and exhibits as you feel are justified in the light of common experience. In other words, you may make deductions and reach conclusions that reason and common sense lead you to draw from the facts that have been established by the testimony and evidence in the case.

The testimony of a single witness may be sufficient to prove any fact, even if a greater number of witnesses may have testified to the contrary, if after considering all the other evidence you believe that single witness.

There are two types of evidence that you may consider in properly finding the truth as to the facts in the case. One is direct evidence—such as testimony of an eyewitness. The other is indirect or circumstantial evidence—the proof of a chain of circumstances that indicates the existence or nonexistence of certain other facts. As a general rule, the law makes no distinction between direct and circumstantial evidence but simply requires that you find the facts from a preponderance of all the evidence, both direct and circumstantial.

When knowledge of technical subject matter may be helpful to the jury, a person who has special training or experience in that technical field—called an expert witness—is permitted to state his or her opinion on those technical matters. However, you are not required to accept that opinion. As with any other witness, it is up to you to decide whether to rely upon it.

In deciding whether to accept or rely upon the opinion of an expert witness, you may consider any bias of the witness, including any bias you may infer from evidence that the expert witness has been or will be paid for reviewing the case and testifying or from evidence that he testifies regularly as an expert witness and his income from such testimony represents a significant portion of his income.

Any notes that you have taken during this trial are only aids to memory. If your memory should differ from your notes, then you should rely on your memory and not on the notes. The notes are not evidence. A juror who has not taken notes should rely on his or her independent recollection of the evidence and should not be unduly influenced by the notes of other jurors. Notes are not entitled to any greater weight than the recollection or impression of each juror about the testimony.

INSTRUCTION NO. 2
SUMMARY OF CONTENTIONS

As you have observed, the parties in this case are Plaintiff WesternGeco L.L.C. and Defendant ION Geophysical Corporation. Throughout these instructions, I will refer to WesternGeco L.L.C. as WesternGeco and ION Geophysical Corporation as ION.

I will now summarize the issues that you must decide and for which I will provide instructions to guide your deliberations. You must decide the following four main issues:

(1) Whether WesternGeco has proven by a preponderance of the evidence that ION has infringed the following claims:

- Claims 18,[1] 19, and 23 of the '520 Patent
- Claim 15 of the '967 Patent
- Claim 15 of the '607 Patent
- Claim 14 of the '038 Patent.

(2) Whether ION has proven by clear and convincing evidence that the following are invalid:

- Claims 18, 19, and 23 of the '520 Patent
- Claim 15 of the '967 Patent
- Claim 15 of the '607 Patent

---

[1] Note that, though I have already found that ION infringes Claim 18 of the '520 Patent under 35 U.S.C. § 271(f)(1), you still must decide whether Claim 18 is infringed under 35 U.S.C. § 271(f)(2).

- Claim 14 of the '038 Patent.

(3) For any claims that are infringed and are not invalid, you will then need to make a finding as to whether the infringement was willful.

(4) Finally, if you decide that any claim has been infringed and is not invalid, you will also need to decide the money damages to be awarded to WesternGeco to compensate it for the infringement that WesternGeco has proved by a preponderance of the evidence. If you decide that any infringement was willful, that decision should not affect any damages award you make. I will take willfulness into account later.

INSTRUCTION NO. 3
ROLE OF THE CLAIMS OF A PATENT

Before you can decide many of the issues in this case, you will need to understand the role of patent "claims." The patent claims are the numbered sentences at the end of each patent. The claims are important because it is the words of the claims that define what a patent covers. The figures and text in the rest of the patent provide a description and/or examples of the invention and provide a context for the claims, but it is the claims that define the breadth of the patent's coverage. That is, the claims are intended to define, in words, the boundaries of the invention. Only the claims of the patent can be infringed. Neither the written description nor the drawings of a patent can be infringed. Each of the claims must be considered individually. You must use the same claim meaning for both your decision on infringement and your decision on invalidity. Each claim is effectively treated as if it was a separate patent, and each claim may cover more or less than another claim. Therefore, what a patent covers depends, in turn, on what each of its claims covers.

You will first need to understand what each claim covers in order to decide whether or not there is infringement of the claim and to decide whether or not the claim is invalid. The law says that it is my role to define the terms of the claims, and it is your role to apply my definitions to the issues that you are asked to decide in this case. Therefore, as I explained to you at the start of the case, I have determined the meaning of the claims, and I will provide to you my definitions of certain claim terms. You must accept my definitions

of these words in the claims as being correct. It is your job to take these definitions and apply them to the issues that you are deciding, including the issues of infringement and validity.

INSTRUCTION NO. 4
HOW A CLAIM DEFINES WHAT IT COVERS

I will now explain how a claim defines what it covers. A claim sets forth, in words, a set of requirements. Each claim sets forth its requirements in a single sentence. If a system satisfies each of these requirements, then it is covered by the claim. The beginning or preamble of the patent claims at issue use the word "comprising." Comprising means "including or containing but not limited to." That is, if you decide that a system includes all the requirements in a claim, that claim is infringed. This is true even if the accused product includes components in addition to those requirements. For example, a claim to a table comprising a tabletop, legs, and glue would be infringed by a table that includes a tabletop, legs, and glue, even if the table also includes wheels on the table's legs.

There can be several claims in a patent. Each claim may be narrower or broader than another claim by setting forth more or fewer requirements. The coverage of a patent is assessed claim-by-claim. In patent law, the requirements of a claim are often referred to as "claim elements" or "claim limitations." When a thing (such as a system) meets all of the requirements of a claim, the claim is said to "cover" that thing, and that thing is said to "fall" within the scope of that claim. In other words, a claim covers a system where each of the claim elements or limitations is present in that system.

INSTRUCTION NO. 5
INDEPENDENT AND DEPENDENT CLAIMS

This case involves two types of patent claims: independent claims and dependent claims. An "independent claim" sets forth all of the requirements that must be met in order to be covered by that claim. Thus, it is not necessary to look at any other claim to determine what an independent claim covers. In this case, the following claims are independent claims:

- Claim 18 of the '520 Patent
- Claim 15 of the '967 Patent
- Claim 15 of the '607 Patent
- Claim 14 of the '038 Patent.

The remainder of the asserted claims in the patents are "dependent claims." Claims 19 and 23 of the '520 patent are dependent on Claim 18 of the '520 patent. A dependent claim does not itself recite all of the requirements of the claim but refers to another claim for some of its requirements. In this way, the claim "depends" on another claim. A dependent claim incorporates all of the requirements of the claims to which it refers. The dependent claim then adds its own additional requirements. To determine what a dependent claim covers, it is necessary to look at both the dependent claim and any other claims to which it refers. A system that meets all of the requirements of both the dependent claim and the claims to which it refers is covered by that dependent claim.

INSTRUCTION NO. 6
CLAIM CONSTRUCTION

I will now explain to you the meaning of some of the words of the claims in this case. In doing so, I will explain some of the requirements of the claims. As I have previously instructed you, you must accept my definition of these words in the claims as correct. You were provided with these definitions in your juror notebooks. For any words in the claim for which I have not provided you with a definition, you should apply their ordinary meaning. You should not take my definition of the language of the claims as an indication that I have a view regarding how you should decide the issues that you are being asked to decide, such as infringement and invalidity. These issues are yours to decide.

CLAIM TERM	COURT'S CONSTRUCTION
"streamer positioning device(s)"; "the positioning device"	a device that controls the position of a streamer as it is towed (*e.g.*, a "bird")
"global control system"	a control system that sends commands to other devices in a system (*e.g.*, local control systems)
"local control system"	a control system located on or near the streamer position devices (*e.g.*, birds)
"location information"	information regarding location

"a control system configured to use a control mode selected from a feather angle mode, a turn control mode, a streamer separation mode, and two or more of these modes"	a control system configured to use one or more control modes selected from a feather angle mode, a turn control mode, a streamer separation mode, and two or more of these modes
"feather angle mode"	a control mode that attempts to set and maintain each streamer in a straight line offset from the towing direction by a certain feather angle
"turn control mode"	mode wherein streamer positioning device(s) generate a force in the opposite direction of a turn and then directing each streamer positioning device to the position defined in the feather angle mode
"streamer separation mode"	a control mode that attempts to set and maintain the spacing between adjacent streamers
"at least some"	more than one

"active streamer positioning device (ASPD)"	a device capable of controlling the vertical and horizontal position of the seismic streamer
"master controller"	a controller that sends commands to other devices in a system
"the master controller"	a master controller
"positioning commands"	signals or instructions to control positioning
"maintaining a specified array geometry"	maintaining a specified array shape
"environmental factors"; "environmental influences"; "environmental measurements"	environmental factors or influences such as wind speed and direction; tidal currents velocity and direction; ocean bottom depth/angle; local current velocity and direction; wave height and direction; ocean bottom depth/angle; and water temperature and salinity

INSTRUCTION NO. 7
PERSON OF ORDINARY SKILL IN THE ART

From time to time, you will be asked to consider the person of ordinary skill in art. The person of ordinary skill is presumed to know all prior art that you have determined to be reasonably relevant. The person of ordinary skill is also a person of ordinary creativity that can use common sense to solve problems.

When determining the level of ordinary skill in the art, you should consider all the evidence submitted by the parties, including evidence of:

(1) The levels of education and experience of the inventor and other persons actively working in the field;

(2) The types of problems encountered in the field;

(3) Prior art solutions to those problems;

(4) Rapidity with which innovations are made; and

(5) The sophistication of the technology.

INSTRUCTION NO. 8
INFRINGEMENT GENERALLY

I will now instruct you how to decide whether or not ION has infringed the asserted patents. Infringement is assessed on a patent-by-patent, claim-by-claim basis. Therefore, there may be infringement as to one claim but no infringement as to another. To prove that an accused system is a patented invention, WesternGeco must prove that the accused system literally infringes the patent claim or infringes the patent claim under the doctrine of equivalents. In this case, there are two possible ways ION may be liable for infringement. These two ways are: (1) infringement through supplying or causing to be supplied components in or from the United States for combination abroad under 35 U.S.C. § 271(f)(1); and (2) infringement through supplying or causing to be supplied one component in or from the United States for combination abroad under 35 U.S.C. § 271(f)(2).

In order to prove infringement, WesternGeco must prove that the requirements for one or more of these types of infringement are met by a preponderance of the evidence, i.e., that it is more likely than not that all of the requirements of one or more of each of these types of infringement have been proved. In deciding the question of infringement, you may not compare ION's products and services to WesternGeco's products and services. Instead, you must compare the accused system to the claims at issue.

I will now explain each of these types of infringement in more detail.

INSTRUCTION NO. 9
LITERAL INFRINGEMENT

To determine whether a system literally infringes a system/apparatus claim, you must compare the accused system with each system/apparatus claim that WesternGeco asserts is infringed. A patent claim for a system or apparatus is literally infringed only if the accused system includes each and every element in that patent claim. If the system does not contain one or more elements recited in a claim, the system does not literally infringe that claim.

WesternGeco asserts that the following claims are literally infringed:

- Claims 18, 19, and 23 of the '520 Patent
- Claim 15 of the '967 Patent
- Claim 15 of the '607 Patent
- Claim 14 of the '038 Patent.

INSTRUCTION NO. 10
INFRINGEMENT UNDER THE DOCTRINE OF EQUIVALENTS

If a system does not literally meet all of the requirements of a claim and thus does not literally infringe that claim, that system may nonetheless be the patented invention and infringe if that system satisfies the claim under the "doctrine of equivalents."

Under the doctrine of equivalents, a system infringes a claim if the accused system performs steps or contains elements corresponding to each and every requirement of the claim that is equivalent to, even though not literally met by, the accused system. You may find that an element or step is equivalent to a requirement of a claim that is not met literally if a person having ordinary skill in the field of technology of the patent would have considered the differences between them to be "insubstantial" or would have found that the structure: (1) performs substantially the same function (2) in substantially the same way (3) to achieve substantially the same result as the requirement of the claim. In order for the structure to be considered interchangeable, the structure must have been known at the time of the alleged infringement to a person having ordinary skill in the field of technology of the patent. Interchangeability at the present time is not sufficient.

In order to prove infringement by "equivalents," WesternGeco must prove the equivalency of the structure to a claim element by a preponderance of the evidence.

WesternGeco asserts that the following claims are infringed under the doctrine of equivalents if they are not literally infringed:

- Claims 18, 19, and 23 of the '520 Patent
- Claim 15 of the '967 Patent

INSTRUCTION NO. 11

INFRINGEMENT THROUGH THE SUPPLY OF COMPONENTS IN OR FROM THE UNITED STATES FOR COMBINATION ABROAD UNDER 35 U.S.C. § 271(f)(1)

WesternGeco alleges that ION infringed the following claims by supplying or causing to be supplied all or a substantial portion of the components of the patented system from the United States and actively inducing the assembly of those components into a system that would infringe the claims if they had been assembled in the United States:

- Claims 19 and 23 of the '520 Patent
- Claim 15 of the '967 Patent
- Claim 15 of the '607 Patent
- Claim 14 of the '038 Patent.

In order to prevail on its infringement claims under 35 U.S.C. § 271(f)(1), WesternGeco must prove by a preponderance of the evidence that:

(1) ION supplied or caused to be supplied from the United States a substantial portion of the components of the claimed invention;

(2) ION intended that the components be combined outside the United States; and

(3) The combination of those components would infringe the claim if such combination occurred in the United States.

You must accept my finding on infringement as it relates to Claim 18 of the '520 Patent under 35 U.S.C. § 271(f)(1). Specifically, I have already determined that ION has supplied or caused to be supplied from the United States a substantial portion of the

components—which I found to be the DigiFIN and the Lateral Controller—of the patented invention of Claim 18 of the '520 Patent. I also have already found that ION intended those components to be combined outside of the United States in a manner that would infringe the patent if the combining had been done in the United States.

In evaluating whether ION infringes the other asserted claims, you must accept my finding that ION intended the DigiFIN and the Lateral Controller to be combined outside of the United States.

You must determine infringement under 35 U.S.C. § 271(f)(1) on a claim-by-claim basis.

INSTRUCTION NO. 12

INFRINGEMENT THROUGH THE SUPPLY OF ONE COMPONENT IN OR FROM UNITED STATES FOR COMBINATION ABROAD UNDER 35 U.S.C. § 271(f)(2)

WesternGeco alleges that ION infringed the following claims by supplying, or causing to be supplied, a component of the patented system from the United States, where the component was especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States:

- Claims 18, 19, and 23 of the '520 Patent
- Claim 15 of the '967 Patent
- Claim 15 of the '607 Patent
- Claim 14 of the '038 Patent.

In order to prevail on its infringement claims under 35 U.S.C. § 271(f)(2), WesternGeco must prove by a preponderance of the evidence that:

(1) ION supplied or caused to be supplied from the United States a component of the claimed invention;

(2) The component is not a staple article or commodity of commerce suitable for substantial non-infringing use;

(3) The component is especially made or especially adapted for use in the claimed invention;

(4) ION knew that the component is especially made or especially adapted for use in the claimed invention; and

(5) ION knew that the intended combination is patented and that the combination would be infringing if it occurred in the United States.

You must determine infringement under 35 U.S.C. § 271(f)(2) on a claim-by-claim basis.

INSTRUCTION NO. 13

INVALIDITY—BURDEN OF PROOF

I will now instruct you on the rules you must follow in deciding whether or not ION has proven that the following claims are invalid:

- Claims 18, 19, and 23 of the '520 Patent
- Claim 15 of the '967 Patent
- Claim 15 of the '607 Patent
- Claim 14 of the '038 Patent.

Patents are presumed valid. To prove that any claim of a patent is invalid, ION must persuade you by clear and convincing evidence, *i.e.* you must be left with a clear conviction that the claim is invalid.

INSTRUCTION NO. 14

ANTICIPATION

In order for someone to be entitled to a patent, the invention must actually be "new." In general, inventions are new when the identical system has not been made, used, or disclosed before.

In this case, ION contends that the following claims are anticipated and thus invalid:

- Claim 18 of the '520 Patent
- Claim 15 of the '607 Patent
- Claim 14 of the '038 Patent.

ION must convince you of this by clear and convincing evidence that the claim(s) is/are invalid. You must consider anticipation on a claim-by-claim basis.

In considering whether the claimed invention was anticipated, you should consider the following prior art:

As to the '520 Patent:

- U.S. Patent No. 5,790,472 (referred to as the "Workman Patent")

As to the '607 Patent:

- U.S. Patent No. 5,790,472 (referred to as the "Workman Patent")

As to the '038 Patent:

- International Application WO 00/20895 (referred to as the "'895 Application").

The parties agree that the foregoing patents and publications are prior art.

For a particular piece of prior art to anticipate a patent claim, it must expressly or inherently disclose each element of the claimed invention to a person of ordinary skill in the art. The disclosure must be complete enough to enable one of ordinary skill in the art to practice the invention without undue experimentation. In determining whether the prior art is enabling for the '520 Patent and the '607 Patent, you should take into account what would have been within the knowledge of a person of ordinary skill in the art on October 1, 1998. In determining whether the prior art is enabling for the '038 Patent, you should take into account what would have been within the knowledge of a person of ordinary skill in the art on June 15, 2001. You may consider evidence that sheds light on the knowledge such a person would have had on those dates, respectively.

INSTRUCTION NO. 15
OBVIOUSNESS

Even though an invention may not have been identically disclosed or described before it was made by an inventor, in order to be patentable, the invention must also not have been obvious to a person of ordinary skill in the field of technology of the patent at the time the invention was made.

In this case, ION contends that the following claims were obvious and thus invalid:

- Claim 15 of the '967 Patent
- Claim 15 of the '607 Patent
- Claim 14 of the '038 Patent.

ION may establish that a patent claim is invalid as obvious by showing, by clear and convincing evidence, that the claimed invention would have been obvious to persons having ordinary skill in the art at the time the invention was made in the field of the invention. You must consider obviousness on a claim-by-claim basis.

In determining whether a claimed invention is obvious, you must consider the level of ordinary skill in the field of the invention that someone would have had at the time the claimed invention was made, the scope and content of the prior art, and any differences between the prior art and the claimed invention. Unlike anticipation, which allows consideration of only one item of prior art, obviousness may be shown by considering more than one item of prior art.

Keep in mind that the existence of each and every element of the claimed invention in the prior art does not necessarily prove obviousness. Most, if not all,

inventions rely on building blocks of prior art. In considering whether a claimed invention is obvious, you may but are not required to find obviousness if you find that at the time of the claimed invention there was a reason that would have prompted a person having ordinary skill in the field of invention to combine the known elements in a way the claimed invention does, taking into account such factors as:

(1) Whether the claimed invention was merely the predictable result of using prior art elements according to their known function(s);

(2) Whether the claimed invention provides an obvious solution to a known problem in the relevant field;

(3) Whether the prior art teaches or suggests the desirability of combining elements claimed in the invention;

(4) Whether the prior art teaches away from combining elements in the claimed invention;

(5) Whether it would have been obvious to try the combinations of elements, such as when there is a design need or market pressure to solve a problem and there are a finite number of identified, predictable solutions; and

(6) Whether the change resulted more from design incentives or other market forces.

In determining whether the claimed invention was obvious, you must consider each claim separately. You must be careful not to determine obviousness using hindsight; many true inventions can seem obvious after the fact. You should put yourself in the position of a person of ordinary skill in the field of the

invention at the time the claimed invention was made, and you should not consider what is known today or what is learned from the teaching of the patent.

In making these assessments, you should take into account any objective evidence (sometimes called "secondary considerations") that may have existed at the time of the invention and afterwards that may shed light on the obviousness or not of the claimed invention, such as:

(1) Whether the invention was commercially successful as a result of the merits of the claimed invention (rather than the result of design needs or market-pressure advertising or similar activities);

(2) Whether the invention satisfied a long-felt need;

(3) Whether others had tried and failed to make the invention;

(4) Whether others invented the invention at roughly the same time;

(5) Whether others copied the invention;

(6) Whether there were changes or related technologies or market needs contemporaneous with the invention;

(7) Whether the invention achieved unexpected results;

(8) Whether others in the field praised the invention;

(9) Whether persons having ordinary skill in the art of the invention expressed surprise or disbelief regarding the invention;

(10) Whether others sought or obtained rights to the patent from the patent holder; and

(11) Whether the inventor proceeded contrary to accepted wisdom in the field.

ION asserts that the claims of WesternGeco's patents identified below are rendered obvious by the following prior art references:

As to the '967 Patent:

- U.S. Patent No. 5,790,472 (referred to as the "Workman Patent")
- International Application WO 98/28636 (referred to as the "'636 Patent Publication")

As to the '607 Patent:

- U.S. Patent No. 5,790,472 (referred to as the "Workman Patent")
- International Application WO 98/28636 (referred to as the "'636 Patent Publication")

As to the '038 Patent:

- International Application WO 00/20895 (referred to as the "'895 Application).

The foregoing patents and publications are prior art.

INSTRUCTION NO. 16
ENABLEMENT

The patent law contains certain requirements for the part of the patent called the specification. ION contends that the following claims are invalid because the specification does not contain a sufficiently full and clear description of how to make and use the full scope of the claimed invention:

- Claims 18, 19, and 23 of the '520 Patent
- Claim 15 of the '967 Patent
- Claim 15 of the '607 Patent
- Claim 14 of the '038 Patent.

To prevail, ION must show by clear and convincing evidence that the patent specification does not contain a sufficiently full and clear description of the claimed invention. To be sufficiently full and clear, the description must contain enough information to have allowed a person having ordinary skill in the field of technology of the patent to make and use the full scope of the claimed invention at the time the patent application was filed. This is known as the "enablement" requirement. If a patent claim is not enabled, it is invalid.

In order to be enabling, the patent must permit persons having ordinary skill in the field of technology of the patent to make and use the full scope of the claimed invention at the time of the original patent filing without having to conduct undue experimentation. However, some amount of experimentation to make and use the invention is allowable. In considering whether a patent claim satisfies the enablement requirement, you must keep

in mind that patents are written for persons of skill in the field of the invention. Thus, a patent need not expressly state information that skilled persons would be likely to know or could obtain.

In deciding whether a person having ordinary skill would have to experiment unduly in order to make and use the invention, you may consider several factors:

(1) the time and cost of any necessary experimentation;

(2) how routine any necessary experimentation is in the field of invention;

(3) whether the patent discloses specific working examples of the claimed invention;

(4) the amount of guidance presented in the patent;

(5) the nature and predictability of the field of invention;

(6) the level of ordinary skill in the field of invention; and

(7) the scope of the claimed invention.

No one or more of these factors is alone dispositive. Rather, you must make your decision whether or not the degree of experimentation required is undue based upon all of the evidence presented to you. You should weigh these factors and determine whether or not, in the context of this invention and the state of the art at the time of the original application, a person having ordinary skill would need to experiment unduly to make and use the full scope of

the claimed invention. Requirements that are not part of the claims do not need to be enabled.

You must consider enablement on a claim-by-claim basis.

The original application date you must consider for purposes of enablement for the '520 Patent, the '967 Patent, and the '607 Patent is October 1, 1998. The original application date you must consider for the '038 Patent is June 15, 2001.

INSTRUCTION NO. 17
WILLFUL INFRINGEMENT

In this case, WesternGeco argues that ION willfully infringed. For any claim that is infringed and is not invalid, you must go on and address the additional issue of whether or not this infringement was willful.

To prove that ION's infringement was willful, WesternGeco must prove by clear and convincing evidence that ION acted recklessly.

To prove that ION acted recklessly, WesternGeco must prove that ION actually knew or should have known that its actions constituted an unjustifiably high risk of infringement of a valid and enforceable patent.

To determine whether ION had this state of mind, consider all facts which may include, but are not limited, to:

(1) Whether or not the infringer acted in accordance with the standards of commerce for its industry;

(2) Whether or not there is a reasonable basis to believe that the infringer did not infringe or had a reasonable defense to infringement;

(3) Whether or not the infringer made a good-faith effort to avoid infringing the patent such as attempting to design a product the infringer believed did not infringe;

(4) Whether or not the infringer tried to cover up its infringement.

INSTRUCTION NO. 18
DAMAGES GENERALLY

If you find that ION infringed any valid claim of the '520, '607, '967, and/or '038 patents, you must then consider what amount of damages to award to WesternGeco. Since I have already found that ION infringes claim 18 of the '520 patent, you must award damages if you find that claim to be valid.

I will now instruct you about the measure of damages. By instructing you on damages, I am not suggesting which party should win this case, on any issue.

The damages you award must be adequate to compensate WesternGeco for the infringement. They are not meant to punish an infringer. Your damages award, if you reach this issue, should put WesternGeco in approximately the same financial position that it would have been in had the infringement not occurred.

WesternGeco has the burden to establish the amount of its damages by a preponderance of the evidence. In other words, you should award only those damages that WesternGeco establishes that it more likely than not suffered. WesternGeco must prove the amount of damages with reasonable certainty, but need not prove the amount of damages with mathematical precision. However, WesternGeco is not entitled to damages that are remote or speculative.

There are different types of damages that WesternGeco may be entitled to recover. In this case, WesternGeco seeks lost profits for some acts of infringement and a reasonable royalty for other acts

of infringement. For an act of infringement proven by WesternGeco, WesternGeco may recover either lost profits or a reasonable royalty, but not both.

I will give more detailed instructions regarding damages shortly. Note, however, that WesternGeco is entitled to recover no less than a reasonable royalty for each act of infringement.

INSTRUCTION NO. 19
LOST PROFITS

In this case, WesternGeco seeks to recover lost profits resulting from ION's alleged infringement.

To recover lost profits, WesternGeco must show by a preponderance of the evidence that ION's alleged infringement of a valid patent claim caused WesternGeco to lose sales. In other words, WesternGeco must show a reasonable probability that it would have made the sales it says it lost but for the infringement. This but-for causation inquiry requires a reconstruction of the market as it would have developed without the infringing product to determine what sales WesternGeco would have made in the absence of the infringement.

You may infer that WesternGeco has proven its lost profits if you find that WesternGeco has proven each of the following by a preponderance of the evidence:

(1) There was demand for the patented product;

(2) There were no acceptable, noninfringing alternatives, or, if there were, that WesternGeco nonetheless lost some profits as a result of the infringing activity;

(3) WesternGeco had the manufacturing and marketing capacity to make some of the infringing sales it says it lost; and

(4) The amount of profit WesternGeco would have made if ION had not infringed.

I will now explain each of these factors.

DEMAND FOR THE PATENTED PRODUCT

Demand for the patented product can be proven by significant sales of WesternGeco's patented product. Demand for the patented product can also be proven by significant sales of an infringing product containing the patented features.

ACCEPTABLE NON-INFRINGING SUBSTITUTES

In order to be considered an "acceptable" non-infringing substitute, the product alleged to be the substitute must have one or more of the advantages of the patented invention that were important to customers. If, however, the realities of the marketplace are that competitors other than WesternGeco would likely have captured some or all of the sales made by ION, even despite a difference in the products, then WesternGeco is not entitled to lost profits on those sales.

A non-infringing substitute may be considered "available" as a potential substitute even if the product was not actually on sale during the infringement period. Factors suggesting the alternative was available include whether the material, experience, and know-how for the alleged substitute were readily available at the time of infringement. Factors suggesting the alternative was not available include whether the material was of such high cost as to render the alternative unavailable and whether an alleged infringer had to design or invent around the patented technology to develop an alleged substitute.

In order to assess whether there is an absence of acceptable non-infringing substitutes, you must consider whether non-infringing substitutes existed

that were acceptable to the *specific* purchasers of the allegedly infringing products, not "purchasers" generally. The test is whether purchasers of ION's product were motivated to make their purchase by features of ION's product that were attributable to the claimed invention. If so, non-infringing products without those features would not be "acceptable non-infringing substitutes," even if they otherwise competed in the marketplace with the patented and allegedly infringing products.

CAPACITY

WesternGeco is only entitled to lost profits for sales it could have actually made. In other words, WesternGeco must show that it had the manufacturing and marketing capability to make the sales it says it lost. WesternGeco must prove that it was more probable than not that it could have made, or could have had someone else make for it, the additional products it says it could have sold but for the infringement. WesternGeco also must prove that it had the capability to market and sell the additional patented products.

MARKET SHARE

It is not necessary for WesternGeco to prove that WesternGeco and ION were the only suppliers in the market for WesternGeco to demonstrate entitlement to lost profits. If the realities of the marketplace are such that "acceptable non-infringing substitutes" were available from suppliers who would have made only some, but not all, of the sales allegedly lost by WesternGeco, then WesternGeco may be entitled to lost profits on a portion of the infringing sales. The burden is on WesternGeco, however, to show to a

reasonable probability that it would have made the alleged lost sales if ION's product had never existed. By the same token, even if you find that WesternGeco and ION were the only two suppliers of products having the advantages of the patented product, it does not necessarily mean that WesternGeco would have made all of the alleged lost sales. The burden is on WesternGeco to show that its product competed in the same market with ION's product and that it would have made the alleged lost sales if the infringement had not occurred.

For those infringing sales where WesternGeco does not seek, or does not prove, lost profits damages, the law requires that you award WesternGeco a reasonable royalty. I will now instruct you on how to calculate reasonable royalty damages.

INSTRUCTION NO. 20
REASONABLE ROYALTY

If you find that WesternGeco has established infringement, WesternGeco is entitled to at least a reasonable royalty to compensate it for that infringement. If you find that WesternGeco has not proved its claim for lost profits, or has proved its claim for lost profits for only a portion of the infringing sales, then you must award WesternGeco a reasonable royalty for all infringing sales for which it has not been awarded lost profits damages.

A royalty is a payment made to a patent holder in exchange for the right to make, use, or sell the claimed invention. A reasonable royalty is the amount of royalty payment that a patent holder and the infringer would have agreed to in a hypothetical negotiation taking place at a time prior to when the infringement first began. In considering this hypothetical negotiation, you should focus on what the expectations of the patent holder and the infringer would have been had they entered into an agreement at that time, and had they acted reasonably in their negotiations. In determining this, you must assume that both parties believed the patent was valid and infringed and the patent holder and infringer were willing to enter into an agreement. The reasonable royalty you determine must be a royalty that would have resulted from the hypothetical negotiation, and not simply a royalty either party would have preferred. Evidence of things that happened after the infringement first began can be considered in evaluating the reasonable royalty only to the extent that the evidence aids in assessing what royalty would have resulted from a hypothetical

negotiation. Although evidence of the actual profits an alleged infringer made may be used to determine the anticipated profits at the time of the hypothetical negotiation, the royalty may not be limited or increased based on the actual profits the alleged infringer made.

In determining the reasonable royalty, you should consider all the facts known and available to the parties at the time the infringement began. Some of the kinds of factors that you may consider in making your determination are:

(1) The royalties received by the patentee for the licensing of the patent-in-suit, proving or tending to prove an established royalty;

(2) The rates paid by the licensee for the use of other patents comparable to the patent-in-suit;

(3) The nature and scope of the license, as exclusive or nonexclusive, or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold;

(4) The licensor's established policy and marketing program to maintain his or her patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly;

(5) The commercial relationship between the licensor and licensee, such as whether they are competitors in the same territory in the same line of business, or whether they are inventor and promoter;

(6) The effect of selling the patented specialty in promoting sales of other products of the licensee, the existing value of the invention to the licensor as a generator of sales of his nonpatented items, and the extent of such derivative or convoyed sales;

(7) The duration of the patent and the term of the license;

(8) The established profitability of the product made under the patents, its commercial success, and its current popularity;

(9) The utility and advantages of the patented property over the old modes or devices, if any, that had been used for working out similar results;

(10) The nature of the patented invention, the character of the commercial embodiment of it as owned and produced by the licensor, and the benefits to those who have used the invention;

(11) The extent to which the infringer has made use of the invention and any evidence probative of the value of that use;

(12) The portion of the profit or of the selling price that may be customary in the particular business or in comparable business to allow for the use of the invention or analogous inventions;

(13) The portion of the realizable profits that should be credited to the invention as distinguished from nonpatented elements, the manufacturing process, business risks, or

significant features or improvements added by the infringer;

(14) The opinion and testimony of qualified experts; and

(15) The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee—who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention—would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.

No one factor is dispositive, and you can and should consider the evidence that has been presented to you in this case on each of these factors. You may also consider any other factors which in your mind would have increased or decreased the royalty the infringer would have been willing to pay and the patent holder would have been willing to accept, acting as normally prudent business people. The final factor establishes the framework which you should use in determining a reasonable royalty, that is, the payment that would have resulted from a negotiation between the patent holder and the infringer taking place at a time prior to when the infringement began.

INSTRUCTION NO. 21
INSTRUCTIONS ON DELIBERATION

When you retire to the jury room to deliberate on your verdict, you may take this charge with you as well as exhibits which the Court has admitted into evidence. Select your Foreperson and conduct your deliberations. If you recess during your deliberations, follow all of the instructions that the Court has given you about your conduct during the trial. After you have reached your unanimous verdict, your Foreperson is to fill in on the form your answers to the questions. Do not reveal your answers until such time as you are discharged, unless otherwise directed by me. You must never disclose to anyone, not even to me, your numerical division on any question.

If you want to communicate with me at any time, please give a written message or question to the bailiff, who will bring it to me. I will then respond as promptly as possible either in writing or by having you brought into the courtroom so that I can address you orally. I will always first disclose to the attorneys your question and my response before I answer your question.

After you have reached a verdict, you are not required to talk with anyone about the case unless the Court orders otherwise. You may now retire to the jury room to conduct your deliberations.

SIGNED in Houston, Texas on this the 14th day of August, 2012.

[handwritten: signature]
KEITH P. ELLISON
U.S. DISTRICT JUDGE

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

No. 4:09-cv-01827

WESTERNGECO LLC,
Plaintiff,

v.

ION GEOPHYSICAL CORPORATION
Defendant.

DKT. 665 - EXHIBIT 3
FILED UNDER SEAL

WesternGeco Claimed Non-Fugro Surveys				
Customer	Surveyor/ Vessel	Date	Region	Sims's Claimed Lost Revenue
BP	PGS / Apollo	March 2011	Angola	$18.0 million
BP	PGS / Ramform Sterling	November 2011	Australia	$45.0 million
Conoco-Phillips	CGGV / Geowave Voyager	October 2009	Australia	$24.5 million

Exxon-Mobil	PGS / Ramform Vanguard	January 2010	Angola	$10.0 million
Petronas	CGGV / Geowave Commander	October 2010	Malaysia	$13.0 million
Statoil	Polarcus / Asima	July 2011	Norway	$6.1 million
Statoil	PGS / Ramform Vanguard	August 2011	Norway	$11.8 million
Statoil	PGS / Ramform Vanguard	June 2011	Norway	$13.0 million
Total	Polarcus / Nadia	October 2011	Nigeria	$7.2 million
Total	PGS / Ramform Sterling	June 2011	Angola	$15.8 million

No. 16-1011

In the
Supreme Court of the United States

WESTERNGECO LLC,

Petitioner,

v.

ION GEOPHYSICAL CORPORATION,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR PETITIONER

TIMOTHY K. GILMAN
LESLIE M. SCHMIDT
KIRKLAND & ELLIS LLP
601 Lexington Avenue
New York, NY 10022
(212) 446-4800

PAUL D. CLEMENT
Counsel of Record
GREGG F. LOCASCIO, P.C.
JOHN C. O'QUINN
WILLIAM H. BURGESS
KIRKLAND & ELLIS LLP
655 Fifteenth Street, NW
Washington, DC 20005
(202) 879-5000
paul.clement@kirkland.com

Counsel for Petitioner

February 23, 2018

QUESTION PRESENTED

Under 35 U.S.C. §271(f), it is an act of patent infringement to supply "components of a patented invention," "from the United States," knowing or intending that the components be combined "outside of the United States," in a manner that "would infringe the patent if such combination occurred within the United States."

Under 35 U.S.C. §284, patent owners who prevail in litigation are entitled to "damages adequate to compensate for the infringement."

The question presented is:

Whether the court of appeals erred in holding that lost profits arising from prohibited combinations occurring outside of the United States are categorically unavailable in cases where patent infringement is proven under 35 U.S.C. §271(f).

CORPORATE DISCLOSURE

All parties to the proceeding are listed in the caption.

WesternGeco LLC is an indirectly, wholly owned subsidiary of Schlumberger Limited, which is a publicly traded company.

TABLE OF CONTENTS

QUESTION PRESENTED i
CORPORATE DISCLOSURE ii
TABLE OF AUTHORITIES v
INTRODUCTION 1
OPINIONS BELOW 3
JURISDICTION 3
PERTINENT STATUTORY PROVISIONS 4
STATEMENT OF THE CASE 6
A. Statutory Background 6
1. Infringement (§271) 6
2. Damages (§284) 9
B. Factual Background 11
1. WesternGeco's Patents 11
2. ION's Infringement 13
C. District Court Proceedings 14
D. Appellate Proceedings 14
SUMMARY OF ARGUMENT 18
ARGUMENT 21
I. The Plain Text Of §271(f) And §284 Makes Clear That WesternGeco Can Recover For The Lost Profits Caused By ION's Infringement Under §271(f) 21
II. The Decision Below Misunderstands And Misapplies The Presumption Against Extraterritoriality And Impermissibly Narrows The Relief Available Under §284 For Infringement Under §271(f) 26

A. The Presumption Against Extraterritoriality Is Inapplicable Here Because §271(f) Prohibits Domestic Infringement and There Is No Question Here About the Scope of Foreign Conduct or Foreign Copying That Triggers Liability Under §271(f) 28

B. Even if the Presumption Applied, the Plain Text and Evident Intent of §271(f) Would Satisfy It 34

C. The Presumption Against Extraterritoriality Has No Application to Available Damages for Conduct Congress Plainly Intended to Make Unlawful 39

D. Principles of Proximate Cause and Related Doctrines Can Sensibly Limit Damages Without Flouting Congress' Intent in Enacting §271(f) 52

CONCLUSION 55

TABLE OF AUTHORITIES

Cases

Albemarle Paper Co. v. Moody,
422 U.S. 405 (1975) 24

Am. Banana Co. v. United States,
213 U.S. 347 (1909) 29, 46

Am. Safety Table Co. v. Schreiber,
415 F.2d 373 (2d Cir. 1969) 10, 24

Aro Mfg. Co.
v. Convertible Top Replacement Co.,
377 U.S. 476 (1964) 24, 52

Bavendam v. Pearson Educ., Inc.,
Nos. 13-3096, 13-3176,
13-3318, 13-3319, 13-3320,
2013 WL 5530008 (D.N.J. Oct. 3, 2013) 51

Bende & Sons, Inc.
v. Crown Recreation, Inc.,
548 F. Supp. 1018 (E.D.N.Y. 1982) 45

Carbice Corp. of Am.
v. Am. Patents Dev. Corp.,
283 U.S. 27 (1931) 52

Carleton v. Lombard, Ayres & Co.,
43 N.E. 422 (N.Y. 1896) 46

Commil USA, LLC v. Cisco Sys., Inc.,
135 S. Ct. 1920 (2015) 6

Coupe v. Royer,
155 U.S. 565 (1895) 24

Datascope Corp. v. SMEC, Inc.,
879 F.2d 820 (Fed. Cir. 1989) 44

Deauville Corp.
v. Federated Dep't Stores, Inc.,
756 F.2d 1183 (5th Cir. 1985) 45

Deepsouth Packing Co. v. Laitram Corp.,
406 U.S. 518 (1972) 1, 7, 8, 23

Delafield v. J.K. Armsby Co.,
116 N.Y.S. 71 (N.Y. App. Div. 1909) 45

Dowagiac Mfg. Co.
v. Minn. Moline Plow Co.,
235 U.S. 641 (1915) 42

eBay Inc. v. MercExchange, L.L.C.,
547 U.S. 388 (2006) 51

Edwards Mfg. Co. v. Bradford Co.,
294 F. 176 (2d Cir. 1923) 45

EEOC v. Arabian Am. Oil Co.,
499 U.S. 244, 255 (1991) 29

F. Hoffmann-La Roche Ltd.
v. Empagran S.A.,
542 U.S. 155 (2004) 32

FDIC v. Meyer,
510 U.S. 471 (1994) 31

Fishel v. Lueckel,
53 F. 499 (C.C.S.D.N.Y. 1892) 44

Fox Film Corp. v. Doyal,
286 U.S. 123 (1932) 51

General Motors Corp. v. Devex Corp.,
461 U.S. 648 (1983) ..... *passim*

Geophysical Serv. Inc. v. ConocoPhillips Co.,
No. H-15-2766, 2016 WL 2839286
(S.D. Tex. May 13, 2016) 51

Glob.-Tech Appliances v. SEB S.A.,
563 U.S. 754 (2011) 6

Goulds Mfg. Co. v. Cowing,
105 U.S. 253 (1881) 20, 42

Great White Bear, LLC v. Mervyns, LLC,
No. 06 Civ. 13358, 2008 WL 2220662
(S.D.N.Y. May 27, 2008).....45

Halo Elecs., Inc. v. Pulse Elecs., Inc.,
136 S. Ct. 1923 (2016) 17

Hardwood Lumber Co.
v. Adam & Steinbrugge,
68 S.E. 725 (Ga. 1910).....45

ICONICS, Inc. v. Massaro,
192 F. Supp. 3d 254 (D. Mass. 2016) 51

Ketchum Harvester Co.
v. Johnson Harvester Co.,
8 F. 586 (C.C.N.D.N.Y. 1881).....43, 44, 52

Kiobel v. Royal Dutch Petroleum Co.,
569 U.S. 108 (2013) 28, 33

Kirby Lumber Co. v. C.R. Cummings & Co.,
122 SW. 273 (Tex. Civ. App. 1909) 45

L.A. News Serv.
v. Reuters Television Int'l, Ltd.,
340 F.3d 926 (9th Cir. 2003) 50

Laitram Corp. v. Deepsouth Packing Co.,
301 F. Supp. 1037 (E.D. La. 1969).....7

Lauritzen v. Larsen,
345 U.S. 571 (1953) 46

Lexmark Int'l, Inc.
v. Static Control Components, Inc.,
134 S. Ct. 1377 (2014) 52

Liberty Toy Co. v. Fred Silber Co.,
149 F.3d 1183, 1998 WL 385469
(6th Cir. 1998) 50

Life Techs. Corp. v. Promega Corp.,
137 S. Ct. 734 (2017) 8, 31, 35

Limelight Networks, Inc.
v. Akamai Techs., Inc.,
134 S. Ct. 2111 (2014) 37

McComb v. Brodie,
15 F. Cas. 1290 (C.C.D. La. 1872) 10, 24

Microsoft Corp. v. AT&T Corp.,
550 U.S. 437 (2007) ..... *passim*

Millmaker v. Bruso,
No. H-07-3837, 2008 WL 219551
(S.D. Tex. Jan. 25, 2008) 45

Morrison v. Nat'l Austl. Bank, Ltd.,
561 U.S. 247 (2010) 28, 29

Multiflex, Inc. v. Samuel Moore & Co.,
709 F.2d 980 (5th Cir. 1983) 45

Murray v. Schooner Charming Betsy,
6 U.S. (2 Cranch) 64 (1804) 46

Palmer v. Braun,
376 F.3d 1254 (11th Cir. 2004) 50, 51

Palmer/Kane LLC
v. Houghton Mifflin Harcourt Publ'g Co.,
No. 13-11030-GAO, 2014 WL 183774
(D. Mass. Jan. 16, 2014) 51

Panduit v. Stahlin Bros. Fibre Works, Inc.,
575 F.2d 1152 (6th Cir. 1978) 10, 24, 53

Piaggio & C. v. Cushman Motor Works,
416 F.2d 683 (7th Cir. 1969) 45

Power Integrations, Inc.
v. Fairchild Semiconductor Int'l, Inc.,
589 F. Supp. 2d 505 (D. Del. 2008) 15

Power Integrations, Inc.
v. Fairchild Semiconductor Int'l, Inc.,
711 F.3d 1348 (Fed. Cir. 2013) 15, 43, 48

R.R. Dynamics, Inc. v. A. Stucki Co.,
727 F.2d 1506 (Fed. Cir. 1984) 44

Rite-Hite Corp. v. Kelley Co., Inc.,
56 F.3d 1538 (Fed. Cir. 1995) 10, 24, 53

RJR Nabisco, Inc. v. European Cmty.,
136 S. Ct. 2090 (2016) 28, 33, 47

Robinson v. Hyer,
17 So. 745 (Fla. 1895) 45

Schillinger v. United States,
155 U.S. 163 (1894) 52

Schneider (Eur.) AG v. Scimed Life Sys.,
60 F.3d 839, Nos. 94-1317,
94-1410, 94-1456, 1995 WL 375949
(Fed. Cir. 1995) 44

Sekhar v. United States,
133 S. Ct. 2720 (2013) 39

Seymour v. McCormick,
57 U.S. (16 How.) 480 (1853) 53

Sheldon v. Metro-Goldwyn Pictures Corp.,
106 F.2d 45 (2d Cir. 1939) 44, 49, 50

Sheldon v. Metro-Goldwyn Pictures Corp.,
309 U.S. 390 (1940) 50

Siemens Med. Sols. USA, Inc.
v. Saint-Gobain Ceramics & Plastics, Inc.,
637 F.3d 1269 (Fed. Cir. 2011) 10, 24

Smith v. United States,
507 U.S. 197 (1993) 28

Snead v. United States,
595 F. Supp. 658 (D.D.C. 1984) 45

Sony Corp. of Am. v. Universal City Studios, Inc.,
464 U.S. 417 (1984) 51, 52

Sun-Maid Raisin Growers v. Victor Packing Co.,
194 Cal. Rptr. 612 (Cal. Ct. App. 1983) 45

Tire Eng'g & Distrib., LLC v. Shandong Linglong Rubber Co.,
682 F.3d 292 (4th Cir. 2012) 44, 50, 51

United States v. Palmer,
16 U.S. (3 Wheat.) 610 (1818) 46

Update Art, Inc. v. Modiin Publ'g, Ltd.,
843 F.2d 67 (2d Cir. 1988) 50

Wallingford v. Kaiser,
84 N.E. 295 (N.Y. 1908) 46

Wicker v. Hoppock,
73 U.S. (6 Wall.) 94 (1867) 24

Yale Lock Mfg. Co. v. Sargent,
117 U.S. 536 (1886) 10, 18, 24, 25

Statutes

15 U.S.C. §77q 40

15 U.S.C. §77t 40

15 U.S.C. §77v 40

15 U.S.C. §77x 40

15 U.S.C. §78aa 40

15 U.S.C. §78ff 40

15 U.S.C. §78u 40
18 U.S.C. §1964 33
29 U.S.C. §211 40
29 U.S.C. §§215-217 40
29 U.S.C. §623 40
29 U.S.C. §626 40
35 U.S.C. §67 (1946) 10
35 U.S.C. §70 (1946) 10
35 U.S.C. §154 6
35 U.S.C. §271 ..... *passim*
35 U.S.C. §281 6
35 U.S.C. §284 9
42 U.S.C. §12111 40
42 U.S.C. §12112 40
42 U.S.C. §12117 40
42 U.S.C. §1981a 40
42 U.S.C. §2000e 40
46 U.S.C. §70503 40
46 U.S.C. §§70506-70507 40
Act of Aug. 1, 1946,
Pub. L. No. 79-587, 60 Stat. 778 9
Patent Act of 1836,
Pub. L. 24-357, 5 Stat. 117 10
Patent Act of 1870,
ch. 230, 16 Stat. 198 10
Patent Act of 1952,
Pub. L. No. 82-593, 66 Stat. 792 9

Other Authorities

130 Cong. Rec. H10525 (daily ed. Oct. 1, 1984), *reprinted in* 1984 U.S.C.C.A.N. 5827 (1984) 8

Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 Va. J. Int'l L. 505 (1997) 47

Dan B. Dobbs, *Handbook on the Law of Remedies* (1st ed. 1973) 10, 24, 25, 53

H.R. Rep. No. 79-1587 (1946) 25

Restatement (Second) of Torts (1979) 53

William C. Robinson, *The Law of Patents for Useful Inventions* (1890) 10, 24, 53

S. Rep. No. 79-1503 (1946) 25

S. Rep. No. 98-663 (1984) 8

U.S. Code Cong. Serv. 1946 25

INTRODUCTION

In *Deepsouth Packing Company v. Laitram Corporation*, 406 U.S. 518 (1972), a bare majority of this Court held that a defendant that manufactured all the components of a patented combination in the United States did not commit a domestic act of infringement by shipping the components unassembled for combination and use in foreign markets. The dissenting Justices complained that the majority created a loophole that would leave patent holders systematically undercompensated. Congress acted to close that loophole by adding §271(f) to the Patent Act. Section 271(f) does not directly regulate the foreign combination by making that extraterritorial act a violation of U.S. law. Instead, §271(f) makes it a domestic act of infringement to "supply in or from the United States" components with the intent that they be assembled abroad in a manner that would constitute infringement if it occurred in the United States. That approach allowed Congress to close the *Deepsouth* loophole without directly prohibiting foreign combinations in a manner that could create friction with other nations.

The jury here found that respondents violated §271(f) by shipping components of petitioners' patented invention for assembly and use abroad. The intended foreign combination occurred and caused petitioners reasonably foreseeable harms including over $90 million in lost profits. The jury awarded damages accordingly, which the district court upheld. The Federal Circuit, however, through a misguided application of the presumption against extraterritoriality, reversed the award of lost profits that would have been earned abroad. The Federal

Circuit's decision systematically undercompensates patent holders and flouts Congress' will by reopening the precise loophole Congress sought to close in enacting §271(f).

The plain text of §271(f) and §284 makes clear that a patent holder bringing an infringement action under §271(f) can recover damages reasonably and foreseeably caused by the infringement, including lost sales, even where the sales would have occurred abroad. Section 271(f) specifically targets domestic conduct (supplying components in or from the United States) with an intent that the components will be assembled abroad. When that section is violated and the intended foreign combinations occur and cause harm to a U.S. patent holder, the resulting damages can be recovered under §284, a damages provision designed to facilitate full compensation.

The Federal Circuit deviated from that plain-text result by (mis)applying the presumption against extraterritoriality, but that presumption is inapposite here for multiple reasons. First, §271(f) targets domestic conduct undertaken with an intent to facilitate foreign combinations. In a case like this, where liability under §271(f) is established and the scope of foreign conduct that could trigger liability under the provision is not at issue, the presumption is inapplicable. But even if the presumption were applicable, it would be satisfied by the text of §271(f). Congress could hardly have been plainer in its intent to make it unlawful to supply components in or from the United States with the intent that they be combined abroad. When that intended *foreign* combination in fact occurs, the idea that the resulting damages should be limited because the combination

occurred *abroad* beggars belief and defies Congress' unmistakable intent. Finally, the entire enterprise of applying the presumption against extraterritoriality to damages is misguided. This Court has held for over a century that when domestic infringement reasonably and foreseeably causes the patent holder to lose foreign sales, the foreign lost profits are recoverable as damages for domestic infringement, even though the foreign sales are not independent acts of patent infringement. Lower courts have long and uniformly applied the same rule in copyright cases and other contexts.

None of this means that damages associated with foreign lost profits are unlimited, but the limits come from well-established principles of proximate cause, not from a misapplication of the presumption against extraterritoriality. In the end, the Federal Circuit's decision systematically undercompensates patent holders and contradicts Congress' evident intent in enacting §271(f). The decision should be reversed.

OPINIONS BELOW

The court of appeals' panel opinion following a GVR order from this Court (136 S. Ct. 2486) is reported at 837 F.3d 1358 (Pet.App.1a-22a). Its previous panel opinion is reported at 791 F.3d 1340 (Pet.App.23a-75a). Its order denying rehearing en banc, and an opinion dissenting therefrom, are at 621 F. App'x 663 (Pet.App.176a-180a). The district court's opinion deciding post-trial motions is reported at 953 F. Supp. 2d 731 (Pet.App.76a-140a).

JURISDICTION

The court of appeals entered judgment on September 21, 2016, and WesternGeco's petition was

timely filed. This Court has jurisdiction under 28 U.S.C. §1254(1).

PERTINENT STATUTORY PROVISIONS

35 U.S.C. §271, subsections (a)-(c) and (f) provide as follows:

> **Infringement of patent.**
>
> (a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.
>
> (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
>
> (c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.
>
> * * *
>
> (f)(1) Whoever without authority supplies or causes to be supplied in or from the United

States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

(2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

35 U.S.C. §284 provides in relevant part:

Damages.

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

STATEMENT OF THE CASE

A. Statutory Background

In general, a U.S. patent confers rights to exclude others from taking certain actions in "the United States," 35 U.S.C. §154(a)(1), during the patent's term, *id.* §154(a)(2). A patent owner may seek remedies in federal court "by civil action for infringement." *Id.* §281. 35 U.S.C. §271 defines patent infringement. Congress added §271(f) to the statute to ensure that taking certain domestic steps with the intent to facilitate a combination of components abroad constitutes patent infringement. Section 284 is a damages provision that provides for full compensation upon proof of infringement.

1. Infringement (§271)

35 U.S.C. §271 defines several different types of patent infringement. Subsection (a) defines direct infringement as making, using, offering to sell, selling, or importing any patented invention, in the United States, without a license and during the patent's term. Subsections (b) and (c) define indirect infringement—actively inducing or contributing to another's act of direct infringement. *See generally Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920 (2015); *Glob.-Tech Appliances v. SEB S.A.*, 563 U.S. 754 (2011).

Although §271 requires domestic conduct for there to be patent infringement, there is no question that making a patented product in the United States for export constitutes patent infringement under §271(a), even if the ultimate foreign sale is consummated abroad. Section 271(a), after all, prohibits making *or* selling a patented invention in the disjunctive, so

domestic making constitutes infringement even though the foreign sale does not. Indeed, the premise for this Court's decision in *Deepsouth* was that making a patented combination in the United States for export would constitute patent infringement, even if the ultimate sale took place abroad. The question that divided the Court 5-4 was whether a manufacturer that stops short of making the combination within the United States could avoid patent liability by shipping the components abroad so that the patented combination would only be made abroad.

In *Deepsouth*, the defendant sold a machine (a shrimp deveiner) covered by the plaintiff's combination patent. Earlier phases of the litigation settled the validity of the patent, established that domestic combinations constituted infringement, and enjoined those combinations. 406 U.S. at 523; *see also, e.g.*, *Laitram Corp. v. Deepsouth Packing Co.*, 301 F. Supp. 1037, 1066 (E.D. La. 1969), *aff'd* 443 F.2d 928 (5th Cir. 1971). The question that came before this Court was whether the production of components in the United States for assembly abroad constituted infringement given that the patented combination only took place abroad. The defendant shipped components in three boxes to customers abroad, who could assemble the machine within an hour. *Deepsouth*, 406 U.S. at 523-24. A bare majority of the Court held that the defendant could not be liable for infringement under then-existing 35 U.S.C. §271. The Court reasoned that the defendant did not make, use, sell, or offer to sell the combination in the United States, and while the defendant acted in the United States to induce the combination to occur abroad, the foreign combination was not patent infringement and there could be no secondary infringement (*i.e.*,

inducement) without primary infringement. *Id.* at 528. Thus, the defendant had not done anything that §271 then defined as patent infringement. Four Justices dissented on the ground that the majority opinion created an unjustified loophole in the patent laws and provided a roadmap for patent infringement.

As this Court has recognized, Congress enacted §271(f) in 1984, in direct response to *Deepsouth*. *See Life Techs. Corp. v. Promega Corp.*, 137 S. Ct. 734, 742 (2017); *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 444 (2007). Congress added subsection (f) to §271 to change the result in *Deepsouth* and close what it viewed as "a loophole in patent law." 130 Cong. Rec. H10525 (daily ed. Oct. 1, 1984), *reprinted in* 1984 U.S.C.C.A.N. 5827, 5828 (1984). The Senate Report accompanying the final bill described §271(f) as a "reversal of *Deepsouth*." S. Rep. No. 98-663, at 2-3 (1984). Section 271(f), however, did not close the *Deepsouth* loophole by making the foreign combination *itself* a violation of U.S. patent law. Doing so would have deviated from the basic territorial approach of §271 and could have created friction with other nations. Instead, Congress closed the loophole by treating specific domestic action (supplying components "in or from the United States"), with a particular foreign-oriented intent (that the components be combined "outside of the United States in a manner that would infringe the patent if such combination occurred within the United States"), as an act of domestic patent infringement. 35 U.S.C. §271(f). In other words, while Congress did not make the foreign combination itself an act of infringement, it treated inducing that foreign combination by supplying components from the United States with the intent that they be combined

abroad as infringement and did so fully understanding that the intended combination and resulting damages would occur abroad.[1]

2. Damages (§284)

Patent owners that prove infringement are entitled to damages under 35 U.S.C. §284. Section 284 is a general damages provision that does not distinguish among types of infringement: "the court shall award the claimant damages *adequate to compensate for the infringement*, but in no event less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. §284 (emphasis added). By its terms, "a reasonable royalty" is an absolute floor to recovery; the statutory entitlement is to "damages adequate to compensate for the infringement."

Congress enacted §284 as part of the Patent Act of 1952. Pub. L. No. 82-593, §284, 66 Stat. 792, 813. In 1946, Congress amended an earlier damages provision by eliminating a reference to disgorgement of the infringer's profits as a remedy available in addition to the plaintiff's actual damages caused by the infringement. Act of Aug. 1, 1946, Pub. L. No. 79-587, 60 Stat. 778. Predecessor statutes were otherwise similar to §284, and entitled prevailing

---

[1] Section 271(f), reproduced *verbatim* at pp. 4-5, *supra*, includes two subsections, but the differences between the two subsections do not affect the analysis here. Under the district court's judgment, ION was liable for infringement under both subsections, *see* Pet.App.35a, and the Federal Circuit affirmed the judgment of infringement on the basis of ION's liability under subsection (f)(2), without reaching certain of ION's arguments that related only to subsection (f)(1) and are not implicated here. Pet.App.37a-38a.

patent-infringement plaintiffs to recover actual damages sustained as a result of the infringement.[2] Consistent precedent holds that a prevailing patent owner's damages may include lost profits that the patent owner can prove it would have earned absent the infringement. *See, e.g.*, *Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 552-53 (1886).[3]

This Court examined §284 in *General Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983). The Court recognized that while Congress eliminated the disgorgement of profits, which had proven cumbersome to calculate, Congress fully intended to provide broad and full compensation to the patent holder. *Id.* at 654-56. The Court rejected an

---

[2] *See, e.g.*, 35 U.S.C. §67 (1946) ("the actual damages sustained"); *id.* §70 ("for an infringement the complainant shall be entitled to recover general damages which shall be due compensation for making, using, or selling the invention, not less than a reasonable royalty therefor, together with such costs, and interest, as may be fixed by the court"); Patent Act of 1870, ch. 230, §59, 16 Stat. 198, 207 ("the actual damages sustained"); *id.* §55, 16 Stat. 206 ("for an infringement, the ... complainant shall be entitled to recover ... the damages the complainant has sustained thereby"); Patent Act of 1836, Pub. L. 24-357, §14, 5 Stat. 117, 123 ("the actual damages sustained by the plaintiff").

[3] *See also, e.g.*, *Siemens Med. Solutions USA, Inc. v. Saint-Gobain Ceramics & Plastics, Inc.*, 637 F.3d 1269, 1287-88 (Fed. Cir. 2011); *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995) (en banc); *Panduit v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978); *Am. Safety Table Co. v. Schreiber*, 415 F.2d 373, 377-78 (2d Cir. 1969); *McComb v. Brodie*, 15 F. Cas. 1290, 1294-95 (C.C.D. La. 1872); Dan B. Dobbs, *Handbook on the Law of Remedies* 436-38 (1st ed. 1973); 3 William C. Robinson, *The Law of Patents for Useful Inventions* 337-38 & n.2 (1890).

argument that pre-judgment interest was available only in exceptional cases and concluded that §284 entitles a patent owner to "full compensation for 'any damages' he suffered as a result of the infringement." *Id.* at 654-55 (citation omitted). The Court underscored that "[w]hen Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly." *Id.* at 653.

B. Factual Background

1. WesternGeco's Patents

WesternGeco developed and patented technology used in surveys to search for oil and gas under the ocean floor.

Under preexisting technology, a ship tows an array of streamers (miles-long cables filled with sensors) over the survey area, and an air gun sends soundwaves toward the ocean floor. Sensors in the streamers detect reflected soundwaves and use them to map the geology under the ocean floor. Pet.App.24a-25a.

ship towing streamer array

streamers detecting reflected sound waves

Surveys are expensive and time-consuming, but the resulting data are valuable to oil exploration companies. High-quality data are important because a company stands to lose hundreds of millions of

dollars or more when it drills a well and finds no oil. C.A.App.3072:1-18.[4]

WesternGeco invented and patented "lateral steering" technology, which allows surveyors to control the movement of the streamers, rather than simply pulling them behind the ship. Without lateral steering, the miles-long streamers may drift, tangle, or space unevenly as a result of conditions on the high seas, such as currents, waves, debris, or wakes from other vessels. Lateral steering enhances the surveyor's control over the streamers, which facilitates more efficient surveys, enhanced survey features, and higher-quality data. C.A.App.531, 1281:16-1282:6, 1283:10-1288:2, 1293:3-9, 1294:8-1298:3, 1513:14-1514:10.

After nearly a decade of research and a hundred million dollars of investment, WesternGeco created the "Q-Marine," the first surveying system with lateral steering. C.A.App.1776:9-22, 2612:18-2613:7, 2622:9-19. Rather than selling the Q-Marine system or licensing its patents to competitors, WesternGeco used its patented invention itself to perform lateral-steering-enabled surveys for oil companies. Because no one else was offering lateral steering, WesternGeco could charge a premium over conventional surveys, and could negotiate directly (rather than engage in competitive bidding) with customers that wanted higher-quality surveys. For approximately six years, WesternGeco had 100% of the lateral-steering market segment. In 2007 alone, it earned more than $500 million from surveys. C.A.App.2695:8-12, 3302:11-23.

---

[4] Citations to C.A.App. refer to the Federal Circuit appendix.

2. ION's Infringement

In late 2007, ION began selling a competing survey system featuring lateral steering. ION shipped components of its system—"DigiFIN" streamer positioning devices and a "Lateral Controller"—from its warehouse in Harahan, Louisiana, to surveying companies abroad, intending for those companies to combine the components into a surveying system that undisputedly practices WesternGeco's patents.

It is undisputed that ION knew of WesternGeco's patents before it made its first sale. C.A.App.3790:11-16, 3996:20-3997:13. Indeed, it is undisputed that ION's customers concluded that surveys using ION's system would infringe WesternGeco patents, and requested indemnity from ION for such infringement. C.A.App.8070-74, 7072-73, 7338, 2099:16-2100:9, 7091-99, 8062-68, 5243:6-5244:16, 8069, 5553:17-5554:13. In ION's own words, ION developed its system as part of a plan "to compete in the market space that WesternGeco has created." C.A.App.8052, 7000, 7006.

Equipped with ION's system, ION's customers competed directly with WesternGeco for survey contracts—including contracts that required the lateral-steering technology only WesternGeco had previously been able to provide. Pet.App.40a; C.A.App.7000, 7006, 4474:4-8, 1312:3-1313:9, 1491:9-1492:18. Trial evidence showed that ION's infringement generated more than $3 billion for ION and its customers. C.A.App.3271:11-17, 10185-86, 10244-45.

Using ION's system, ION's customers performed 101 lateral-steering-enabled surveys. WesternGeco

proved at trial that it lost at least ten specific survey contracts (worth $6 million to $45 million each) to ION's customers using ION's system. Pet.App.40a-41a. In the absence of ION's infringement under §271(f), the jury found, WesternGeco would have obtained and performed at least those ten contracts and earned the associated profits. Pet.App.175a (jury verdict).

C. District Court Proceedings

WesternGeco sued ION for, *inter alia*, infringement under 35 U.S.C. §§271(f)(1) and (f)(2). ION "supplie[d] ... from the United States ... components of a patented invention" for combination outside the United States by its customers, and otherwise met all elements of both subsections of §271(f).[5] The jury found ION liable for infringement, and awarded damages, consisting of $12.5 million in royalties, and $93.4 million for lost profits. Pet.App.170a-175a. The district court denied ION's post-trial motions to set aside the verdict. Pet.App.76a-105a.

D. Appellate Proceedings

The court of appeals unanimously affirmed ION's liability for infringement. *See* Pet.App.28a-40a (majority decision, addressing ION's liability arguments); Pet.App.54a (dissenting opinion, agreeing that ION is liable).

By a 2-1 vote, however, the court reversed the jury's award of lost profits (approximately $93 million of the $106-million award). Pet.App.40a-48a. Relying primarily on the presumption against

---

[5] WesternGeco also sued ION's customer Fugro. Fugro settled during trial. *See* JA15 (entry 145); JA30 (entry 525).

extraterritoriality and an earlier Federal Circuit decision applying the presumption (*Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013)), the panel majority concluded that profits lost outside of the United States are unavailable as a matter of law even in an action for infringement under §271(f). Pet.App.40a-48a.

In *Power Integrations*, the patentee sued under 35 U.S.C. §§271(a) and (b) for infringement of a patent covering chips used in electronic power supplies. The patentee contended that, in its industry, sales contracts were awarded on a worldwide basis and that the defendant's domestic infringement thus caused the patentee to lose sales inside and outside the United States. *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 589 F. Supp. 2d 505, 510-11 (D. Del. 2008). The Federal Circuit held that, as a matter of law, the patentee could not recover damages for sales lost to chips that were neither made nor sold in the United States. 711 F.3d at 1371. The Federal Circuit assumed, *arguendo*, that those lost sales were "the direct, foreseeable result of [the defendant's] domestic infringement." *Id.* Nonetheless, the court believed that the presumption against extraterritoriality required a rule in patent cases that "the entirely extraterritorial production, use, or sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement." *Id.* at 1371-72.

In this case, the panel majority treated *Power Integrations* as controlling. The majority understood *Power Integrations* to have ruled that "under §271(a)

the export of a finished product cannot create liability for extraterritorial *use* of that product." Pet.App.42a (emphasis added). In the panel majority's view, "§271(f) was designed to put domestic entities who export components to be assembled into a final product into a similar position to domestic manufacturers who sell the final product domestically or export the final product." Pet.App.45a. Thus, if, under *Power Integrations*, the presumption against extraterritoriality prevented §271(a) plaintiffs from recovering so-called "foreign profits," then that presumption should bar that same category of damages for §271(f) plaintiffs. *Id.* ("Just as the United States seller or exporter of a final product cannot be liable for use abroad, so too the United States exporter of the component parts cannot be liable for use of the infringing article abroad."). The majority found that WesternGeco was "still entitled to a reasonable royalty," Pet.App.45a, but eliminated the $93-million lost-profits portion of the jury's $105 million damages award. Pet.App.40a-48a, 52a-53a.

Judge Wallach dissented from the reversal of lost profits. Pet.App.54a-75a. In his view, the majority read *Power Integrations* too broadly, conflated damages with liability, failed to account for differences between §271(a) and §271(f), and created a "near-absolute bar to the consideration of a patentee's foreign lost profits [that] is contrary to the precedent both of this court and of the Supreme Court." Pet.App.75a.

WesternGeco petitioned for rehearing en banc, which the court denied. Pet.App.176a-177a. Judge Wallach, joined by Judges Newman and Reyna, dissented. Pet.App.178a-180a. The en banc dissent

reiterated many of the points from Judge Wallach's panel dissent and noted that the panel decision relied on a rule of law "at odds with" copyright law's analogous "predicate act doctrine," under which "a copyright owner 'is entitled to recover damages flowing from the exploitation abroad of ... domestic acts of infringement.'" Pet.App.179a.

WesternGeco petitioned for certiorari. Following a GVR order from this Court on a separate issue,[6] the Federal Circuit panel majority issued a new opinion that "reinstate[d] [its] earlier opinion and judgment," Pet.App.2a-3a, with respect to lost-profit damages. Pet.App.4a-5a & n.1. Judge Wallach again dissented in part, elaborating on his disagreement with the rule the majority announced in its earlier (now-reinstated) opinion. Pet.App.13a-22a; *see id.* at 22a (majority opinion established "[a]n unduly rigid rule barring the district court from considering foreign lost profits even when those lost profits bear a sufficient relationship to domestic infringement").

WesternGeco again petitioned for certiorari. After requesting and receiving the views of the Solicitor General, 137 S. Ct. 2206 (2017), this Court granted WesternGeco's petition.

---

[6] In a clause no longer at issue here, 35 U.S.C. §284 permits trial courts to "increase the damages up to three times the amount found or assessed." Following this Court's GVR order, the Federal Circuit ordered a partial remand to the district court to reconsider, in light of *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016), whether to enhance damages. Pet.App.1a-2a. Those proceedings have concluded, and neither party appealed. *See* JA35 (entry 770).

SUMMARY OF ARGUMENT

The plain text of §271(f) and §284 makes clear that a victim of patent infringement under §271(f) can recover damages reasonably and foreseeably caused by the infringement, including lost sales, even where the lost sales would have occurred abroad. Indeed, given the specific form of infringement targeted by §271(f) and the particular loophole Congress sought to close, it is entirely predictable that damages for a §271(f) violation will include lost foreign sales. Section 271(f) prohibits certain domestic acts (supplying components in or from the United States) with a particular foreign-oriented intent (that they be combined abroad in a manner that would constitute patent infringement if it occurred in the United States). There is no question that ION violated §271(f) here; the violation is now undisputed. Section 284, in turn, authorizes an award of damages "adequate to compensate for the infringement." This Court has long allowed for the recovery of lost profits caused by patent infringement, *Yale Lock*, 117 U.S. at 552-53, and has emphasized that §284 embodies a congressional policy of "full compensation," *General Motors*, 461 U.S. at 655-56. Thus, putting together those two straightforward provisions, there is no reason that a victim of §271(f) infringement would not be able to recover lost profits associated with lost foreign sales. Indeed, because §271(f) requires the infringer to intend that the components to be combined "*outside* the United States," it would be more than passing strange if damages were limited because the combination occurred *abroad*. Thus, absent some atextual principle limiting damages, the damages at issue here are plainly authorized by the text of §271(f) and §284.

The Federal Circuit thought that the presumption against extraterritoriality supplied the atextual principle that precluded a damages award calculated by reference to foreign lost profits. But the presumption against extraterritoriality is inapplicable here for multiple reasons. First, it is inapplicable because §271(f) principally defines an act of domestic infringement, and there is no question here about the scope of foreign conduct or foreign copying that triggers liability under §271(f). Thus, the presumption against extraterritoriality, which is primarily concerned with statutes making foreign conduct unlawful and secondarily concerned with the scope of such prohibitions, has no application here.

Second, even if the presumption against extraterritoriality were applicable here, it would plainly be satisfied by the text of §271(f). In enacting §271(f), Congress focused its attention on transnational transactions and identified a specific form of domestic conduct that constituted infringement if it occurred with an intent to facilitate foreign combinations. When the intended combinations in fact occur, Congress wanted to supply a remedy and plainly contemplated that damages would be inflicted by foreign combinations and lost sales abroad. That inescapable conclusion is reinforced by the fact that Congress was acting to close a loophole created by this Court's decision in *Deepsouth*, which caused a patent holder to be undercompensated when components were exported for combination abroad. To find the presumption unsatisfied by Congress' deliberate effort to close that loophole is to defy Congress' will.

Third, the Federal Circuit was wrong to think that the presumption against extraterritoriality applies to damages awards calculated with reference to foreign conduct. Even when Congress legislates to prohibit only domestic conduct, there is no reason to assume that Congress intended to provide less than a full remedy when the domestic misconduct directly causes an injury that is measured in part by foreign conduct. Indeed, this Court embraced that rule in patent cases over a century ago. *Goulds Mfg. Co. v. Cowing*, 105 U.S. 253 (1881). *Goulds* makes clear that when a domestic act of infringement (there, manufacturing infringing pumps in the United States) foreseeably causes patent holders to lose sales in both the United States and abroad (*e.g.*, in Canada), the patent holder can recover damages for the domestic infringement as measured by the lost sales both here and abroad. The fact that the foreign sales do not constitute an independent act of infringement (because they occur abroad) does not make them unrecoverable when they are a direct consequence of the domestic infringement. Lower courts have applied the same rule in a wide variety of contexts including copyright. Any other rule would lead to systematic undercompensation.

None of this means that damages for domestic infringement are unlimited. But the limits come not from a misapplication of the presumption against extraterritoriality, but from generally applicable principles of proximate cause and related doctrines. The alternative, embraced by the Federal Circuit below, is to adopt a rule that defies Congress' evident intent in enacting §271(f). Having specified that supplying components of a patented invention in or from the United States with the intent that the components be combined abroad constitutes

infringement, and having included a generous damages provision in the Act, Congress was under no obligation to specify that damages should be awarded when the intended foreign combination occurred abroad. The Federal Circuit's decision reflects an unwarranted and unprecedented extension of the presumption against extraterritoriality that systematically undermines Congress' will and undercompensates victims of §271(f) infringement. The decision should be reversed.

ARGUMENT

I. The Plain Text Of §271(f) And §284 Makes Clear That WesternGeco Can Recover For The Lost Profits Caused By ION's Infringement Under §271(f).

The correct result in this case follows naturally from the text of the two provisions of the Patent Act directly at issue here: §271(f) and §284. Section 271(f) specifies that supplying components of a patented invention "in or from the United States," with the intent that the components be "combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States" is an act of patent infringement under the patent laws. In §271(f), Congress specifically focused on the precise quantum of domestic conduct (supply components in or from the United States) and requisite intent (that the components be combined abroad in a manner that would constitute infringement if it occurred domestically) that gives rise to liability for patent infringement. Section 284, in turn, provides that a patent holder who proves an act of infringement is entitled to "damages adequate to compensate for the infringement." As the Court has

explained, §284 reflects a policy of full compensation for the patent holder for losses caused by infringement. *General Motors*, 461 U.S. at 654-55.

The combined effect of those two provisions provides a straightforward answer to the question presented. Respondent engaged in the precise conduct that §271(f) prohibits by supplying components from the United States with the intent that they be combined abroad in a manner that would violate WesternGeco's patents if it had occurred in the United States. Those intended foreign combinations occurred and had the reasonable and foreseeable effect of causing WesternGeco to lose profits. The fact that those lost profits would have been earned abroad (or on the high seas) and flowed from the foreign combination of components is hardly remarkable. Indeed, given the conduct specifically prohibited by §271(f), the fact that damages flow from *foreign* combinations and lost sales *abroad* is all but inevitable and certainly no basis for denying Petitioner a make-whole recovery under §284.

1. There is no longer any dispute that ION committed acts of infringement under §271(f). Enacted in response to this Court's decision in *Deepsouth*, *see* pp. 6-9, *supra*, §271(f) creates infringement liability for anyone who "supplies or causes to be supplied in or from the United States" components "of a patented invention," knowing or intending that the components will be combined "outside of the United States in a manner that would infringe the patent if such combination occurred within the United States." 35 U.S.C. §271(f)(1).

That is precisely what ION did here. Indeed, that is no longer in dispute, and there is no issue here about

the scope of conduct, foreign or domestic, that triggers liability under §271(f). ION shipped components of its system from a warehouse in the United States to surveying companies abroad, expecting and intending that those companies would combine the components into a surveying system that practices WesternGeco's patents. Before enactment of §271(f), that conduct would not have been an act of infringement, even though it plainly injured the patent holder in ways practically indistinguishable from making the product domestically and shipping the assembled machine from the United States. *Deepsouth*, 406 U.S. at 527-28. But Congress closed the *Deepsouth* loophole with §271(f) and removed the opportunity for domestic exporters to circumvent the patent laws by supplying components from the United States, having the components combined abroad, and then relying on technicalities to treat domestic supply and foreign assembly as separate, legally unrelated acts. In doing so, Congress specified the precise degree of domestic conduct that sufficed and made equally clear that it was not indifferent to the consequences of the combination that would occur outside the United States.

2. Once it proved acts of infringement under §271(f), WesternGeco was entitled under §284 to damages "adequate to compensate for the infringement." That is not a narrow or grudging standard. To the contrary, this Court has made clear in several ways that patent holders are entitled to full recovery for the harm inflicted by acts of infringement.

To begin with, this Court has confirmed that damages for patent infringement—as with most

torts—should provide a make-whole recovery, *i.e.*, damages should put the patentee in the position that it would have occupied absent the infringement. *Yale Lock*, 117 U.S. at 552 (patentee may recover "the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred"); *Coupe v. Royer*, 155 U.S. 565, 582 (1895); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964); *see also Albemarle Paper Co. v. Moody*, 422 U.S. 405, 418-19 (1975) (applying the same principle for other torts: "[t]he injured party is to be placed, as near as may be, in the situation he would have occupied if the wrong had not been committed" (quoting *Wicker v. Hoppock*, 73 U.S. (6 Wall.) 94, 99 (1867)).

In particular, the Court has recognized that a prevailing patent owner's damages may include, if proved, lost profits the patent owner would have earned if the infringement had not occurred. *Yale Lock*, 117 U.S. at 552-53.[7] To be sure, a patent owner (like any other plaintiff) seeking lost-profits damages must meet stringent evidentiary burdens and provide specific proof—including proving to a reasonable certainty the amount of the lost profits, and that the defendant's tortious conduct in fact proximately caused the full amount of lost profits. *See, e.g.*, *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978); *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995)

---

[7] *See also, e.g.*, *Siemens*, 637 F.3d at 1287-88; *Rite-Hite*, 56 F.3d at 1545; *Panduit*, 575 F.2d at 1156; *Am. Safety Table*, 415 F.2d at 377-78; *McComb*, 15 F. Cas. at 1294-95; 3 Robinson, *supra*, at 337-38 & n.2; Dobbs, *supra*, at 436-38.

(en banc); Dobbs, *supra*, at 153-57. But when, as here, those burdens are met, lost profits are a traditionally available element of recovery in patent cases as in other tort cases. *See, e.g.*, *Yale Lock*, 117 U.S. at 552-53.

Finally, this Court has made plain that §284 entitles prevailing patentees to "full compensation" consistent with general tort principles. *General Motors*, 461 U.S. at 656-57. Rejecting the argument that interest should only be awarded in exceptional circumstances, the Court in *General Motors* explained that §284 grants a patent holder the right to "receive *full compensation* for 'any damages' he suffered as a result of the infringement." *Id.* at 654-55 (emphasis added) (quoting H.R. Rep. No. 79-1587 at 1-2 (1946); S. Rep. No. 79-1503 at 2 (1946), and U.S. Code Cong. Serv. 1946, at 1387). The Court further noted that, "[w]hen Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly," 461 U.S. at 653, and Congress had not done so with respect to interest in the broad language of Section 284.[8]

In this case, full compensation for WesternGeco necessarily includes the profits lost as a result of ION's violations of §271(f). As noted above, the jury found that the specific actions that ION took in the United States that constitute infringement under §271(f), caused WesternGeco to lose out on at least ten

---

[8] Instances where Congress has said so explicitly include 35 U.S.C. §§ 271(e)(4)(C), (e)(6)(B), which make limited exceptions to the availability of money damages in circumstances not relevant here.

specific survey contracts which would have generated over $90 million in profits. *See* pp. 13-14, *supra*.

The facts that the damages followed the combination of components outside the United States and that the lost profits involved surveys on the high seas are neither surprising nor relevant given the precise conduct §271(f) targets and the nature of the loophole that §271(f) closed. Congress specified the precise domestic conduct that suffices to constitute domestic patent infringement and it did so with full knowledge that the principle consequences of that infringement would flow from the "combination of such components outside the United States." Under those circumstances, there is no plausible basis for denying the patent holder the full measure of damages, including lost profits, that §284 provides, just because the lost profits stemmed from conduct abroad or on the high seas. Instead, the plain text of §271(f) and §284 makes clear that WesternGeco may recover the lost profits that were reasonably and foreseeably caused by ION's acts of infringement in violation of §271(f).

II. The Decision Below Misunderstands And Misapplies The Presumption Against Extraterritoriality And Impermissibly Narrows The Relief Available Under §284 for Infringement Under §271(f).

The Federal Circuit resisted the seemingly self-evident conclusion that the lost profits at issue here were recoverable under the plain text of §271(f) and §284 by misapplying the presumption against extraterritoriality. The Federal Circuit held that, absent a clear congressional indication to the contrary, the presumption prohibited recovery of

profits that would have been earned outside the United States. That proposition is a dramatic, wholly unwarranted, expansion of the extraterritoriality doctrine. It is flawed for at least three reasons. First, the presumption against extraterritoriality is inapplicable here. Given that §271(f) focuses on specific domestic actions that constitute infringement, and the scope of foreign conduct that could trigger liability is not at issue here, the presumption against extraterritoriality is inapplicable. Second, even if the presumption were applicable, it would be overcome by the plain text of §271(f). Given what §271(f) prohibits and the loophole it closed, any extraterritorial effect of §271(f) was fully intended. Indeed, to deny damages for the very foreign combinations that the infringer must intend to facilitate on the ground that the foreign combinations occur abroad is to defy Congress' will. Third, and finally, the presumption is not properly applied to damages provisions at all, as long as Congress clearly intended to reach the underlying conduct that gives rise to the liability. That is the rule applied by this Court to patent cases for at least a century and uniformly by lower courts in copyright and other contexts. Applying the presumption and clear statement principles to damages provisions asks of such provisions something they cannot supply.

A. The Presumption Against Extraterritoriality Is Inapplicable Here Because §271(f) Prohibits Domestic Infringement and There Is No Question Here About the Scope of Foreign Conduct or Foreign Copying That Triggers Liability Under §271(f).

The presumption against extraterritoriality is an interpretive canon. *RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090, 2100 (2016). Pursuant to that canon, courts generally presume that federal statutes do not apply extraterritorially unless traditional tools of statutory interpretation reveal "a clear, affirmative indication" to the contrary. *Id.* at 2101. The canon thus provides a "stable background" for legislation, *Morrison v. Nat'l Austl. Bank, Ltd.*, 561 U.S. 247, 261 (2010), avoids "the international discord that can result when U.S. law is applied to conduct in foreign countries," *RJR Nabisco*, 136 S. Ct. at 2100, and reflects the "commonsense notion that Congress generally legislates with domestic concerns in mind," *id.* (quoting *Smith v. United States*, 507 U.S. 197, 204 n.5 (1993)).

The presumption against extraterritoriality has traditionally come into play in cases where a litigant contends that Congress has declared conduct outside the United States to be unlawful. *See Kiobel v. Royal Dutch Petroleum Co.*, 569 U.S. 108, 116 (2013) ("We typically apply the presumption to discern whether an Act of Congress regulating conduct applies abroad."). As Justice Holmes observed over a century ago, "the general and almost universal rule is that the character of an act as lawful or unlawful must be determined wholly by the law of the country where the

act is done." *Am. Banana Co. v. United States*, 213 U.S. 347, 356 (1909); *see also Microsoft*, 550 U.S. at 455 ("Foreign conduct is [generally] the domain of foreign law" (alteration in original)). As a result of that "general and almost universal rule," it is a fair assumption that congressional legislation that does not clearly indicate an intent to make foreign conduct unlawful is intended only to apply domestically. Accordingly, when a plaintiff asserts that United States law makes foreign conduct unlawful, this Court will decline to apply that law absent a clear indication that Congress meant to make foreign conduct unlawful.

With the substantial increase in international trade and "globalization" in recent decades, the Court has had numerous opportunities to apply this principle. For example, in *EEOC v. Arabian American Oil Co.*, 499 U.S. 244, 255 (1991), the Court concluded that Title VII did not apply to alleged employment discrimination by United States employers employing United States citizens abroad. Likewise, in *Morrison*, the Court rejected the idea that §10(b) of the Securities Exchange Act of 1934 "provide[d] a cause of action" in so-called foreign cubed cases—*i.e.* "to foreign plaintiffs suing foreign and American defendants for misconduct in connection with securities traded on foreign exchanges." 561 U.S. at 250-51. And in *Microsoft*, the Court refused to interpret §271(f) so that it would reach the copying of software from a master disk abroad. 550 U.S. at 451-54.

The question to be answered in those and other similar cases—whether Congress intended to declare conduct occurring outside the United States to be

unlawful—is simply not present in this case. The unlawful conduct here, *i.e.*, the conduct that constitutes infringement, is unquestionably domestic, and there is no question here (in contrast to *Microsoft*) about whether foreign conduct is prohibited by the statute or instead suffices to break the link between domestic supply and foreign assembly. In §271(f), Congress did not make any foreign conduct directly unlawful. Instead, Congress focused on a specific kind of domestic conduct with intended consequences abroad, and deemed that domestic conduct to be sufficient to constitute a domestic act of infringement. For a violation of §271(f) to occur, a person must supply (or cause to be supplied) a component of a patented invention "in or from the United States." If a person takes that domestic action, and does so with the intent that the component be combined outside the United States in a manner that would practice the patent, the person has committed an act of infringement. Thus, while §271(f) requires an intent that the combination take place abroad, the act of infringement is domestic (supplying in the United States). And in a case like this, where liability is conceded and neither party is trying to expand the scope of foreign conduct that triggers the statute, the presumption against extraterritoriality is not even implicated.

To be sure, the Court invoked the presumption in *Microsoft* to remove any doubt about the statutory construction it had already reached by construing §271(f)'s "terms 'in accordance with [their] ordinary or natural meaning.'" *Microsoft*, 550 U.S. at 449 (alteration in original) (quoting *FDIC v. Meyer*, 510

U.S. 471, 476 (1994)).[9] But the question in *Microsoft* was very different as the question of liability under §271(f) was hotly contested and turned on whether foreign copying of Microsoft's software from a master disk and subsequent installation of those copies on computers abroad resulted in a violation of the statute. In that case, Microsoft supplied its customers a master disk from the United States, the customers made copies abroad from that master disk, and then installed the foreign-copied software (but not the master disk) on computers abroad in a way that created an infringing combination. Thus, Microsoft's liability turned on whether the foreign copying broke the link between the supply of the master disk from the United States and the combination of copied software and computers abroad. In that circumstance, the Court rejected the Federal Circuit's decision to impose "§271(f) liability for th[e] foreign-made copies," *id.* at 452, and instead concluded that only "the very components supplied from the United States, and not [foreign] copies thereof, trigger §271(f) liability when combined abroad," *id.* at 453.

Thus, in *Microsoft*, the question before the Court turned on whether foreign copying of software triggered §271(f) liability or instead broke the link between domestic supply and foreign assembly, and

---

[9] More recently, this Court resolved a question concerning the scope of §271(f) without reference to the presumption against extraterritoriality. *See Promega*, 137 S. Ct. at 742. That the Court resolved *Promega* without reference to the presumption even though that case, unlike this one, directly implicated the scope of the statute underscores that the presumption has limited relevance in interpreting §271(f) outside the unusual circumstances of *Microsoft*.

the Court found the presumption helpful in concluding that Congress did not intend to reach the foreign copying. There is no analogous question here. As this case comes to the Court, the issue of §271(f) infringement is settled and there is no question about whether some intervening foreign act puts ION's conduct beyond the statute's reach. The jury found that ION engaged in the requisite domestic conduct (supplying components) with the requisite intent (that they would be combined abroad in a manner that would violate the patent laws if the combination occurred in the United States). No matter how this Court decides this case, no additional foreign conduct will be either made directly unlawful (as in cases like *Arabian American* and *Morrison*) or even implicated by expanding the reach of §271(f) to effectively reach foreign copying (as in *Microsoft*).

As this Court made clear in *RJR Nabisco*, even once it is clear that Congress has decided to make some foreign conduct unlawful, the presumption may still inform the scope of Congress' intent to make foreign conduct unlawful by applying to questions such as which plaintiffs can sue, and what causes of action they can bring, for injuries arising out of the foreign conduct that Congress made unlawful. In *F. Hoffmann-La Roche Ltd. v. Empagran S.A.*, 542 U.S. 155 (2004), for example, the Court concluded that, even though the Foreign Trade Antitrust Improvements Act applied to some foreign anticompetitive conduct, it did not follow that the statute provided a cause of action for claims that depended on allegations of foreign injury. *Id.* at 158-59. Similarly, in *RJR Nabisco*, the Court (citing *Empagran*) reasoned that, although Congress had declared some foreign conduct to be actionable under

RICO (for example, in cases brought by the federal government), that did not necessarily mean that Congress had made all of that same foreign conduct subject to RICO's private right of action, 18 U.S.C. §1964(c). 136 S. Ct. at 2106. Rather, the Court concluded that RICO's private cause of action applied only to plaintiffs that sustained injuries to their business and property in the United States. 136 S. Ct. at 2106; *see also, e.g.*, *Kiobel*, 569 U.S. at 116-24 (Alien Tort Statute does not confer federal-court jurisdiction over causes of action for international-law violations committed in Nigeria); *RJR Nabisco*, 136 S.Ct. at 2100-01 (discussing *Kiobel*).

That extension of the presumption makes sense because questions about which plaintiffs can sue or whether a domestic injury is necessary inform the degree to which foreign conduct is made unlawful. There is, for example, a substantial difference in the extent to which a statute providing a private cause of action will reach foreign conduct or engender diplomatic friction relative to a statute that can be enforced only by the federal government. There is likewise, a substantial difference in the amount of foreign conduct addressed by a statute that applies only to violations that "touch and concern" the United States as opposed to a statute that reaches all foreign conduct anywhere in the world.

But, once again, this second-level extraterritoriality concern does not fit the situation here. As noted above, WesternGeco's claims are not based on unlawful *foreign* conduct; they are based on unlawful *domestic* conduct. Moreover, nothing in this case addresses the scope of either the domestic conduct or foreign conduct that triggers liability under §271(f).

At this stage in the litigation, it is beyond dispute that ION engaged in the requisite domestic conduct with the requisite intent that a foreign combination of the components would ensue. The scope of "supplying," "components," or any other term that might impact the statute's breadth is not at issue. Moreover, there is no question what kind of injury a plaintiff must suffer to be able to bring an infringement action. The action is available only to the holder of U.S. patent whose patent is infringed in one of the specific manners proscribed in §271. Thus, the presumption against extraterritoriality has no work to perform here. By importing the presumption into this wholly different context, the Federal Circuit was simply pounding a square peg into a round hole.

B. Even if the Presumption Applied, the Plain Text and Evident Intent of §271(f) Would Satisfy It.

Even if the presumption against extraterritoriality were applicable, it would plainly be satisfied by §271(f). This is not a situation where Congress was legislating with wholly domestic considerations in mind or a situation where there is an ambiguous term that could potentially expand the statute's foreign reach. To the contrary, Congress enacted §271(f) with *transnational* considerations firmly in mind and prohibited specific domestic conduct if and only if subsequent foreign combinations of components were intended. Congress hardly could have been any more explicit and the background of the legislation—as a direct response to this Court's decision in *Deepsouth*—removes all doubt. Under those circumstances, to restrict the damages that the patent holder can recover for the very *foreign* combination that must be

intended for liability to attach because the combination occurred *abroad* is simply to flout Congress' will. In short, whatever clarity is necessary to overcome any applicable presumption against extraterritoriality is amply supplied by §271(f). A party like ION that violates §271(f) cannot escape the consequences of the foreign combinations it intended just because they occur abroad.

By its terms, §271(f) makes clear that patent holders can establish infringement, and the consequent right to full compensation, only upon a showing that the accused infringer intended to bring about further activity outside the United States. Specifically, §271(f) forbids the "suppl[y]" of "component[s] of a patented invention" "in or from the United States," with the requisite intent to facilitate combination "outside of the United States in a manner that would infringe the patent if such combination occurred within the United States." 35 U.S.C. §271(f)(1)-(2). By its terms, therefore, §271(f) captures conduct with both a domestic grounding and an intended and all-but-certain foreign impact. The conduct is the supply of components from the United States, with the requisite intent to facilitate combination abroad of those components in a manner that practices another's patent. *See Microsoft*, 550 U.S. at 451-52; *Promega*, 137 S. Ct. at 743. Thus, when the components shipped from the United States are, in fact, combined abroad, any indirect regulation of that foreign combination is fully intended by Congress and fully compensable if Congress' will is to be given effect.

It is, of course, theoretically possible for an infringer to violate §271(f) without the combination abroad

actually being consummated. The statute requires a domestic act (supplying the components) with an intent that an extraterritorial combination ensue. Proof that the foreign combination actually ensued is not necessary. But in the vast, vast majority of cases the intended foreign combination will occur. And if the virtual inevitability that the combination abroad will occur is enough to trigger the presumption, it is equally enough to satisfy it.

While the text of §271(f) is more than sufficient to overcome any applicable presumption against extraterritoriality, the well-known history that led to its passage removes all doubt on the score. In *Deepsouth*, a bare majority of this Court concluded that a manufacturer that produces all the readily assembled components of a combination patent could avoid liability if it shipped the components abroad with the intent that the components be assembled abroad. The Court reasoned that while combining the components in the United States would constitute making the invention in violation of §271(a), the patent laws would not reach the foreign combination and there could be no secondary liability for inducement in the absence of a primary violation by the foreign purchaser. Whatever one thinks of that reasoning as an original matter, there is no question that Congress thought that *Deepsouth* created a loophole that needed closing.

Congress could have responded to *Deepsouth* by directly extending U.S. patent law to make the foreign combination unlawful. If Congress had taken that tack, there would be no question that the presumption against extraterritoriality would apply and no question that it would be satisfied and that damages

from the foreign combination, including foreign lost profits, would be fully recoverable.

Congress instead addressed *Deepsouth* in a manner that was more consistent with the basic territorial focus of §271 and more respectful of foreign sovereigns, but equally effective in closing the loophole. Rather than directly regulate the foreign combination and deem the actions of the foreign company receiving and assembling the components unlawful, Congress created an exception to the rule that there can be no secondary liability in the absence of primary liability by providing that if the foreign combination would be an act of infringement if it occurred in the United States, then inducing that foreign combination from the United States constitutes an act of domestic infringement.

In other words, rather than making the foreign combination itself a primary act of infringement, Congress created a specialized form of secondary infringement. *See Limelight Networks, Inc. v. Akamai Techs., Inc.*, 134 S. Ct. 2111, 2118 (2014) (observing that the text of §271(f) "illustrates [that] when Congress wishes to *impose liability* for inducing activity *that does not itself constitute infringement*, it knows precisely how to do so") (emphases added). Section 271(f) makes it unlawful to induce domestically a hypothetical act of primary infringement that is not actually infringement (because it occurred abroad) but would be infringement if it occurred in the United States.

Congress having expressly addressed the foreign combination (albeit in this distinct, indirect and hypothetical way), there is absolutely no basis for limiting the damages caused by the foreign

combination just because it occurred abroad. Doing so would frustrate Congress' will in overruling *Deepsouth*. Congress plainly thought that if the requisite domestic conduct and intent were present, the fact that the combination occurred abroad in no way lessened responsibility or the need for full compensation. To treat the fact that the combination occurred *abroad* as a reason to lessen responsibility for the infringer or reduce compensation for the victim is to ignore the nature of the loophole Congress was closing. The fact that the combination occurred abroad is not some unintended overreach but the whole point of the statute. Thus, it is clear beyond cavil that any indirect effect on the extraterritorial combination was fully intended, and thus if the presumption of extraterritoriality is applicable it is plainly satisfied.

The court of appeals appeared to believe that it had to adopt its atextual reading of §271(f) because it had previously limited recovery based on foreign lost profits under §271(a), Pet.App.42a-44a, and it believed that Congress intended to align damages for infringement under §271(f) with damages for infringement under §271(a). Pet.App.45a. But that gets matters exactly backwards. The Federal Circuit's rule limiting recovery under §271(a) is itself mistaken, as shown in the next section. This is clear from this Court's case law, including *Deepsouth*. The premise of this Court's decision there was that if the combination were made in the United States and the completed machines were shipped abroad intact, as opposed to as components, there would have been a domestic act of infringement (by making the combination here) and not one word in *Deepsouth* suggests that the damages for that infringement

would not have extended to the lost sales abroad. Thus, while it is no doubt true that by closing the *Deepsouth* loophole Congress thought it was placing a patent holder in the same position under §271(f) as a comparable patent holder in a case where assembly of the components occurred here before shipment abroad, that comparable position included the ability to recover lost profits due to the foreign sales. *See generally infra.* But whatever doubt on that score there may be with respect to §271(a), where Congress' primary focus was on domestic infringement, recovery for lost profits from foreign assembly cannot be denied in a §271(f) case for all the reasons detailed above. Congress clearly focused on domestic activity done with the specific intent to induce a foreign combination. Denying damages because the intended *foreign* combination took place *abroad* "sounds absurd, because it is" absurd. *Sekhar v. United States*, 133 S. Ct. 2720, 2727 (2013).

C. The Presumption Against Extraterritoriality Has No Application to Available Damages for Conduct Congress Plainly Intended to Make Unlawful.

The Federal Circuit decision seems to rest on the notion that no matter how clearly Congress indicates that it wants to provide a cause of action that implicates extraterritorial conduct, Congress must separately make clear that it intends for damages to be awarded for harm that implicates extraterritorial conduct. That notion is doubly mistaken. First, where Congress indicates clearly that it wants to provide a party a cause of action that implicates certain foreign conduct, it does not need to reiterate

that intention in the applicable damages provision. Thus, given how clearly §271 indicates Congress' intent to provide a remedy to the holder of a U.S. patent for the intended foreign combination of domestically supplied components, it is of no moment that §284's generally-applicable damages provision does not separately indicate an express intent to award damages for the intended foreign combinations. Indeed, numerous federal statutes that directly and expressly prohibit certain extraterritorial conduct are complemented by a general damages provision that does not separately address foreign damages, but merely provides for damages for a statutory violation (defined elsewhere in terms that reach certain foreign (mis)conduct).[10] Having made its intent to reach certain foreign conduct clear elsewhere in the statute, Congress need not specify in the corresponding damages provision that harm caused by that extraterritorial conduct is recoverable

---

[10] *See, e.g.*, 29 U.S.C. §623(f)(1), (h) (certain extraterritorial acts of age discrimination prohibited); *id.* §626(b)-(c) (remedies, cross-referencing *id.* §§211(b), 215-217); 42 U.S.C. §§12111(4), 12112(c) (certain extraterritorial acts of disability-based discrimination prohibited); *id.* §12117 (remedies, cross-referencing *id.* §§2000e-4 to 2000e-6, 2000e-8, 2000e-9); *id.* §1981a(b) (remedies for intentional discrimination in employment); 15 U.S.C. §77v(c) (federal-court jurisdiction over government-initiated proceedings alleging that certain foreign conduct violated securities laws, cross-referencing *id.* §77q(a)); *id.* §§77t, 77x (remedies); *id.* §78aa(b) (federal-court jurisdiction over government-initiated proceedings alleging that certain foreign conduct violated antifraud provisions of securities laws); *id.* §§78ff, 78u (remedies); 46 U.S.C. §70503(b) (certain extraterritorial acts on various vessels relating to controlled substances, property subject to forfeiture, and currency or other monetary instruments prohibited); *id.* §§70506-70507 (remedies).

notwithstanding that it involved foreign conduct. This Court requires clarity, not redundancy, to overcome the presumption. That alone is sufficient to resolve this case.

But there is a deeper flaw underlying the assumption that Congress must make its intent to make damages incurred abroad recoverable—namely, damages provisions do not implicate the presumption against extraterritoriality at all. Instead, even when a statute regulates only territorially, as does §271(a), there is no basis for assuming that Congress did not intend for reasonably foreseeable damages to be fully recoverable just because the domestic violations caused harm that was suffered abroad or associated with foreign conduct, such as foreign lost profits. Numerous examples illustrate the point. A foreign visitor to the United States rendered unable to work for 8 weeks through the negligence of a federal worker would have a cause of action under the Federal Tort Claims Act, and the plaintiff could recover lost wages to the same extent as a U.S. victim, notwithstanding that the lost wages would have been earned abroad. *See* Brief for the United States as Amicus Curiae at 13 (filed Dec. 6, 2017). Likewise, a foreign company that comes to the United States and enters a contract with a U.S.-based wholesaler to ship components from the United States to the foreign company can recover for foreign lost sales in the event of a breach. *See infra* n.10.

This Court has applied the same commonsense rule in patent cases for over a century. In *Goulds*, for example, this Court relied in part on sales of gas pumps in Canada to calculate an award of lost profits for infringement occurring in the United States. The

infringement occurred when the infringing pumps were manufactured in the United States. But the patent holder's injury from that domestic infringement included lost sales of the pumps both in the United States and Canada. As damages for the domestic infringement, the Court allowed the patent holder to recover its lost profits associated with subsequent sales both in the United States and Canada, even though, then and now, the sales in Canada did not constitute independent acts of infringement. Based on the proof submitted by the patentee, the Court in *Goulds* explained that the profits from sales abroad were, in fact, lost because of the domestic infringement because the patentee "could easily, and with reasonable promptness, [have filled] every order that was made" by the defendant. Pet.App.57a-58a (Wallach, J., dissenting in part) (quoting *Goulds*, 105 U.S. at 256). The lost profits, though tied to lost sales outside the United States, were a proper element of damages for the acts of domestic infringement.

Thirty-three years later, in *Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641 (1915), the Court reaffirmed the rule followed in *Goulds*, while rejecting a portion of the damages award at issue as insufficiently tied to domestic infringement. In *Dowagiac*, some of the defendants were wholesalers who had purchased drills in Canada and then resold them in Canada. 235 U.S. at 643, 650. Pointing to *Goulds*, the Court acknowledged that the plaintiff could have received compensation for its lost profits in Canada if, as had been the case in *Goulds*, "the defendant [had] made the infringing articles in the United States." *Id.* at 650. In *Dowagiac*, however, the plaintiffs had sued

defendants who were guilty of no domestic act of infringement and thus there was no basis for collecting damages from the sales in Canada. *See also* Pet.App.58a (Wallach, J., dissenting in part) (discussing *Dowagiac*).

While this Court did not address damages in its *Deepsouth* decision, the premise of the decision is that the assembly of the components in the United States immediately before shipping the intact machine to foreign markets would have infringed the patent. And if the combination occurred in the United States and was then immediately shipped to a foreign market, there is every reason to think that an appropriate, indeed, a principal, measure of damages would have been the lost foreign sales. The foreign sales would not have been an independent act of infringement but, as in *Goulds*, they would be an important component of damages for the domestic infringement.

Numerous lower-court decisions before and after *Goulds* have awarded damages for foreign harm caused by unlawful domestic acts, necessarily rejecting the theory (embraced only recently by the Federal Circuit) that foreign conduct "under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement." Pet.App.43a (quoting *Power Integrations*, 711 F.3d at 1371-72). For example, in an influential decision issued three months before this Court's decision in *Goulds*, a New York Circuit Court rejected an effort to limit the recovery of foreign profits for domestic infringement on the ground that it improperly conflated liability and proof of damages. *See Ketchum Harvester Co. v. Johnson Harvester Co.*, 8 F. 586, 587 (C.C.N.D.N.Y. 1881). In doing so, the court noted: "It

is true that the sale is the fruition, and gives the profit, and that the sale is abroad and the patent does not cover the sale abroad. *But the unlawful act of making is made hurtful by a sale, wherever made.*" *Id.* (emphasis added). Later cases have taken that same view. *See Fishel v. Lueckel*, 53 F. 499, 501 (C.C.S.D.N.Y. 1892) (citing *Ketchum* for the same principle in a copyright case); *see also, e.g., R.R. Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1519 (Fed. Cir. 1984) (discussed at Pet.App.59a); *Datascope Corp. v. SMEC, Inc.*, 879 F.2d 820, 827 (Fed. Cir. 1989) ("It is undisputed that Datascope is entitled to a reasonable royalty on SMEC's foreign infringing sales."); *Schneider (Eur.) AG v. Scimed Life Sys.*, 60 F.3d 839, Nos. 94-1317, 94-1410, 94-1456, 1995 WL 375949, at *3 (Fed. Cir. 1995) ("We are aware of no rule that a plaintiff cannot recover lost profits for foreign sales of infringing products manufactured in the United States."); Pet.App.15a (Wallach, J., dissenting in part on remand) ("The issue is not one of infringement, where foreign use generally does not count, but one of damages, where it may.").

This understanding is hardly unique to patent law. As discussed below, this principle has long governed in copyright cases. *See, e.g., Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52 (2d Cir. 1939) (L. Hand, J.), *aff'd* 309 U.S. 390 (1940); *Tire Eng'g & Distrib., LLC v. Shandong Linglong Rubber Co.*, 682 F.3d 292, 307-08 (4th Cir. 2012), *cert. denied* 133 S. Ct. 846 (2013). Indeed, in most civil cases, the proposition that foreign harm from domestic wrongful conduct is compensable is treated as virtually self-evident. Where a claim is founded on a defendant's unlawful domestic conduct, and the plaintiff prevails, courts routinely award damages quantified by

reference to foreign evidence or activities, without any suggestion that the presumption against extraterritoriality has any bearing on the damages available.[11] These cases stand for the simple

---

[11] *See also, e.g.*, *Multiflex, Inc. v. Samuel Moore & Co.*, 709 F.2d 980, 997 (5th Cir. 1983) (an antitrust plaintiff injured by anticompetitive conduct in the United States may recover for lost profits from contracts entered in the United States, even if the contracts would be performed abroad), *abrogated in part on other grounds*, *Deauville Corp. v. Federated Dep't Stores, Inc.*, 756 F.2d 1183, 1192 n.5 (5th Cir. 1985); *Piaggio & C. v. Cushman Motor Works*, 416 F.2d 683, 691 (7th Cir. 1969) (foreign manufacturer entitled to lost profits for American distributor's breach of contract); *Edwards Mfg. Co. v. Bradford Co.*, 294 F. 176, 182-84 (2d Cir. 1923) (for breach of supply agreement, buyer can recover lost profits based on planned resale to company in Japan); *Hardwood Lumber Co. v. Adam & Steinbrugge*, 68 S.E. 725, 726-29 (Ga. 1910) (similar, planned resale in Netherlands); *Delafield v. J.K. Armsby Co.*, 116 N.Y.S. 71, 80-81 (N.Y. App. Div. 1909) (similar, resale in England); *Kirby Lumber Co. v. C.R. Cummings & Co.*, 122 SW. 273, 274-76 (Tex. Civ. App. 1909) (similar, resale in Netherlands and Germany); *Robinson v. Hyer*, 17 So. 745, 751-52 (Fla. 1895) (similar, resale in Europe); *Bende & Sons, Inc. v. Crown Recreation, Inc.*, 548 F. Supp. 1018, 1022-23 (E.D.N.Y. 1982) (similar, resale to government of Ghana), *aff'd* 722 F.2d 727 (2d Cir. 1983) (table); *Sun-Maid Raisin Growers v. Victor Packing Co.*, 194 Cal. Rptr. 612, 615-16 (Cal. Ct. App. 1983) (similar, resale in Japan); *Great White Bear, LLC v. Mervyns, LLC*, No. 06 Civ. 13358, 2008 WL 2220662, at *5 (S.D.N.Y. May 27, 2008) (for a retailer's breach of a purchase agreement, clothing company can recover lost deposits to overseas suppliers and factories who were otherwise going to make the clothing); *Millmaker v. Bruso*, No. H-07-3837, 2008 WL 219551, at *3 (S.D. Tex. Jan. 25, 2008) (in action to enforce arbitral award for breach of contract between two U.S. companies, damages included reimbursement for foreign travel expenses and "all costs of foreign travel/medical/evacuation insurances"); *Snead v. United States*, 595 F. Supp. 658, 667 (D.D.C. 1984) (spouse of a USAID employee, injured by medical malpractice at a clinic in Washington D.C., can recover damages stemming from her

proposition that foreign effects can support damages awards as long as they are proximately caused by law-offending activity in the United States, and as long as the plaintiff can otherwise prove its case.

That the presumption against extraterritoriality has no application to damages for domestic misconduct makes perfect sense in light of the concerns that undergird the presumption. Unlike a direct effort to render conduct outside the United States unlawful, allowing lost foreign sales to form a measure of damages for domestic misconduct raises no serious question of international law and no serious prospect of international discord. As the Court explained in *Lauritzen v. Larsen*, 345 U.S. 571 (1953), the presumption against extraterritoriality stems in large measure from international-law concerns about sovereign nations exercising legislative power beyond their borders. *Id.* at 577-78; *see also Am. Banana*, 213 U.S. at 356 ("[T]he general and almost universal rule is that the character of an act as lawful or unlawful must be determined wholly by the law of the country where the act is done," and a contrary rule "would be an interference with the authority of another sovereign, contrary to the comity of nations, which the other state concerned justly might resent."); *United States v. Palmer*, 16 U.S. (3 Wheat.) 610, 632-33 (1818); *Murray v. Schooner*

---

inability to live overseas); *Wallingford v. Kaiser*, 84 N.E. 295, 296 (N.Y. 1908) (in action for conversion of horses, plaintiff could recover damages based on plaintiff's planned sale of horses in England); *Carleton v. Lombard, Ayres & Co.*, 43 N.E. 422, 426 (N.Y. 1896) (in product liability case, trial court erred by excluding evidence that defendant seller knew that plaintiff buyer had contracted to resell product in India).

Charming Betsy, 6 U.S. (2 Cranch) 64, 118 (1804); Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 Va. J. Int'l L. 505, 510-16 (1997). Those international-law concerns are plainly relevant when the issue is whether "U.S. law [should be] applied to conduct in foreign countries." *RJR Nabisco*, 136 S.Ct. at 2100.

But such concerns are not seriously implicated when damages for domestic misconduct compensate for foreign lost profits or foreign lost wages. In those circumstances, Congress is not overstepping its traditional bounds, and any attention paid to foreign events is solely in the interest of providing an adequate remedy to those injured by unlawful domestic acts taken in violation of domestic law. Indeed, if a contrary rule were applied systematically, it would likely lead to undercompensation of foreign companies and foreign nationals injured by misconduct in the United States, as they would be the most likely to have their damages measured in part by foreign activity. Thus, consistent application of a presumption against allowing compensation for foreign lost sales or wages would be at least as likely to cause friction with foreign nations as to ameliorate it. While it has long been common for U.S. courts to take foreign events into account as part of their effort to afford relief for unlawful domestic conduct, that practice has not led to comity concerns or complaints by foreign governments.

The Federal Circuit's recent decisions concerning foreign lost profits seem to be motivated less by any coherent application of the presumption against extraterritoriality and more by a concern that Congress' deliberate decision not to make foreign

sales an independent act of infringement should somehow make it particularly difficult to recover damages in any way associated with lost foreign sales. *See, e.g.*, *Power Integrations*, 711 F.3d at 1371-72 ("the entirely extraterritorial production, use, or sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement"). If that is indeed the case, there are three fundamental problems with using Congress' decision to refrain from making foreign sales an independent act of infringement as an impediment to recovering damages for other domestic acts of infringement when those damages are associated with foreign sales.

First, it is flatly inconsistent with this Court's precedents. This is the precise dynamic at issue in *Goulds*, and yet the Court held that while the sales of the infringing pump in Canada were not an independent violation of the statute, they were a viable basis for awarding damages for the domestic act of manufacturing infringing pumps in the United States. Any other rule would conflate liability and damages.

Second, the sound rule of *Goulds* is supported by the text of §271(a) which prohibits a disjunctive list of acts of infringement. Congress prohibiting making *or* selling a patented invention in the United States. When an infringer violates the former prohibition, but not the latter, in a manner that reasonably and foreseeably deprives the inventor of profits from foreign sales, there is no reason to deny full compensation. The failure of the defendant to violate two independent, disjunctive prohibitions is not a

good reason to excuse it from providing full compensation for one adjudicated violation.

Finally, while this concern about allowing damages calculated based on foreign sales not independently prohibited by §271(a) is incoherent generally, it makes absolutely no sense when it comes to §271(f). That provision prohibits only domestic acts taken with a specific intent about subsequent foreign combinations. The fact that the foreign combinations are not independently prohibited by §271(a) is not some reason for short-changing the victim of §271(f) infringement, it is the *raison d'etre* of the subsection.

The lower courts ran into a similar phenomenon in the copyright context long ago and reached the correct answer relying in part on *Goulds*. Copyright law, like patent law, generally prohibits domestic infringement, but not copying that occurs abroad. That dynamic raises a comparable question of what happens when a domestic act of copying leads directly and foreseeably to foreign copying that injures the copyright holder. Is the damage suffered as a reasonable and foreseeable result of domestic infringement recoverable or does the fact that foreign copying is not independently prohibited somehow limit the recovery for domestic infringement? The courts of appeals, beginning with a decision by Judge Learned Hand, have long allowed full recovery for the domestic infringement by applying the so-called "predicate act" doctrine.

In *Sheldon*, the defendant produced a movie using copyrighted material, made negatives in the United States, and showed the film abroad. 106 F.2d at 52. The act of copying the negatives in the United States was forbidden by U.S. copyright law. *Id.* Thus, Judge

Hand reasoned, "[t]he plaintiffs acquired an equitable interest in [the copies] as soon as they were made, which attached to any profits from their exploitation." *Id.* And, because the exhibition abroad was based on the antecedent unlawful copying in the United States, it did not matter that U.S. law did not independently prohibit the foreign copying and the court "need not decide whether the law of those countries" recognized the plaintiff's copyright. *Id.* In reaching that conclusion, Judge Hand cited both *Goulds* and *Dowagiac*. This Court affirmed (albeit without directly addressing the predicate act doctrine). 309 U.S. 390 (1940).

Following *Sheldon*, the Second Circuit has repeatedly reaffirmed the predicate act doctrine, *Update Art, Inc. v. Modiin Publ'g, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988). Other circuits have adopted the doctrine, and none has rejected it. *See Tire Eng'g*, 682 F.3d at 306 (describing the doctrine as "fundamental").[12] Each circuit has given due consideration to the presumption against extraterritoriality and concluded that that presumption is not violated because the predicate act

---

[12] The Sixth and Eleventh Circuits have either acknowledged the doctrine in dictum or applied the same principle without explicitly calling it the "predicate act doctrine." *See Liberty Toy Co. v. Fred Silber Co.*, 149 F.3d 1183, 1998 WL 385469, at *3 (6th Cir. 1998) (unpublished) ("[A]s long as some act of infringement occurred in the United States, the Copyright Act applies."); *Palmer v. Braun*, 376 F.3d 1254, 1258 (11th Cir. 2004) (per curiam) (citing *Sheldon*)). Over a dissent, the Ninth Circuit in *Los Angeles News Service v. Reuters Television International, Ltd.* recognized the predicate act doctrine, but limited the plaintiff's damages to the infringer's profits. 340 F.3d 926, 931 (9th Cir. 2003); *see also id.* at 932-33 (Silverman, J., dissenting).

doctrine demands domestic wrongful conduct and awards only those damages that are consistent with other limitations such as proximate cause and statutes of limitations. *See, e.g.*, *id.* at 306-08; *Palmer*, 376 F.3d at 1258. Multiple district courts have reached the same conclusion.[13]

The Court need not ratify copyright law's predicate act doctrine to decide this case. But eight decades of decisions in a closely analogous field show that every circuit to confront arguments about shutting off "extraterritorial damages" reasonably and foreseeably caused by domestic infringement has declined to extend the presumption against extraterritoriality even though the copyright law does not independently prohibit infringement abroad. Rather—consistent with *Goulds* and *Dowagiac*—those courts have examined questions of damage quantification through the lens of proximate cause and related general principles.

This Court has recognized the "historic kinship" between patent law and copyright law, *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984), and historically construed both statutes with reference to the same background principles—including on question of remedies. *See, e.g.*, *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 392 (2006) (injunctions); *Fox Film Corp. v. Doyal*, 286 U.S. 123, 131 (1932) (royalties). To be sure, copyright law and

---

[13] *See ICONICS, Inc. v. Massaro*, 192 F. Supp. 3d 254, 262-63 (D. Mass. 2016); *Palmer/Kane LLC v. Houghton Mifflin Harcourt Publ'g Co.*, 2014 WL 183774, at *3 (D. Mass. Jan. 16, 2014); *Bavendam v. Pearson Educ., Inc.*, 2013 WL 5530008, at *5-*6 (D.N.J. Oct. 3, 2013); *Geophysical Serv. Inc. v. ConocoPhillips Co.*, 2016 WL 2839286, at *3-*5 (S.D. Tex. May 13, 2016).

patent law "are not identical twins," and differences between the statutes must be respected. *Sony*, 464 U.S. at 439 n.19. But neither ION nor the Federal Circuit has ever pointed to any unique features of the Patent Act that would justify a patent-law-specific doctrine of extending the presumption against extraterritoriality to bar or limit damages proximately caused by domestic acts of infringement. *See generally Ketchum Harvester*, 8 F. at 587 ("[T]o deprive the patentee of all damages for unlawful making here, because the article is sold abroad, is to deprive him of part of what his patent secures to him."). To the contrary, both statutes prohibit domestic infringement while not prohibiting foreign infringement, and neither statute, properly construed, imposes any artificial limitation on damages for the prohibited domestic infringement.

D. Principles of Proximate Cause and Related Doctrines Can Sensibly Limit Damages Without Flouting Congress' Intent in Enacting §271(f).

The extensive body of copyright precedent underscores that a reversal here poses no threat of opening floodgates to inflated damage demands and awards in patent cases. Patent infringement is a tort. *Schillinger v. United States*, 155 U.S. 163, 169-70 (1894); *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 33 (1931), *supplemented* 283 U.S. 420 (1931); *Aro*, 377 U.S. at 500-01. In patent cases, as in copyright cases, and other tort cases, principles such as proximate cause, foreseeability, and reasonable certainty keep damages awards within their proper scope. *See Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1390-91 (2014)

(discussing proximate cause); Dobbs, *supra*, at 150 ("The plaintiff must not only establish the *fact* of damage with reasonable certainty; he must go further and establish the *amount* of damage with reasonable certainty."); Restatement (Second) of Torts §912 (1979) (similar); *Rite-Hite Corp.*, 56 F.3d at 1545; 3 Robinson, *supra*, at 321-22, 339-42, 367-69 (plaintiffs in patent cases must prove damages to a reasonable certainty). For lost profits in particular, patentees who seek such relief continue to face stringent evidentiary burdens not affected by this case, and must generally practice their inventions. *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 490-91 (1853) (vacating award of lost profits and ordering new trial where erroneous instructions permitted jury to substitute speculation for required proof); *see also, e.g.*, *Rite-Hite*, 56 F.3d at 1545-46; *Panduit*, 575 F.2d at 1156. Those boundaries have long proved sufficient to cabin unjustified awards, and they will continue to be available to do so.

By contrast, affirmance of the decision below would needlessly extend the presumption against extraterritoriality and reopen the very loophole Congress sought to close by enacting §271(f). The presumption against extraterritoriality has never been construed to apply to damages provisions corresponding to provisions that expressly apply abroad or to limit damages for domestic torts that inflict damages measured in part by reference to foreign conduct. Even when Congress expressly addresses certain extraterritorial conduct, it often cross-references general damages provisions that do not expressly distinguish between domestic and extraterritorial applications of the statute. *See supra* at 40 & n.10. The Patent Act is a case in point.

Section 271(f) addresses the precise relationship between domestic conduct and intended foreign combinations with specificity. But when the conduct violates §271(f) the question of damages is left to the generic damages provision in §284 that applies to all infringement. Expecting a specific indication in §284 that Congress intended damages to extend to foreign lost profits is to look for the wrong thing in the wrong place. And even when a statute prohibits domestic conduct without expressly considering extraterritorial considerations, there is no reason to artificially limit damages for domestic infringement, based on the happenstance of whether reasonable and foreseeable damages include foreign lost profits or lost wages.

Whatever may be true in other contexts, applying the presumption to limit damages caused by foreign combinations and foreign sales under §271(f) would completely frustrate Congress' intent. Congress enacted §271(f) to close the loophole created by this Court's decision in *Deepsouth*. Putting aside the merits of this Court's decision as a matter of secondary patent liability or statutory construction, Congress reached the quite reasonable judgment that someone should not be able to extract profits from someone else's patented combination through the simple expedient of stopping short of assembling the combination inside the United States but shipping the components abroad for quick assembly outside the United States. Having expressly acted to close that loophole, it would make no sense to limit the recovery of the patent holder just because the intended foreign combination occurs abroad. Yet that is precisely the misguided result embraced by the court below. That decision has nothing to recommend it as a matter of statutory construction, the presumption against

extraterritoriality or commonsense. This Court should reverse the decision and keep the *Deepsouth* loophole closed.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted,

TIMOTHY K. GILMAN
LESLIE M. SCHMIDT
KIRKLAND & ELLIS LLP
601 Lexington Avenue
New York, NY 10022
(212) 446-4800

PAUL D. CLEMENT
Counsel of Record
GREGG F. LOCASCIO, P.C.
JOHN C. O'QUINN
WILLIAM H. BURGESS
KIRKLAND & ELLIS LLP
655 Fifteenth Street, NW
Washington, DC 20005
(202) 879-5000
paul.clement@kirkland.com

Counsel for Petitioner

February 23, 2018

No. 16-1011

In the Supreme Court of the United States

WESTERNGECO LLC, PETITIONER

v.

ION GEOPHYSICAL CORPORATION

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR THE RESPONDENT

DANIELLE J. HEALEY
BRIAN G. STRAND
BAILEY K. BENEDICT
FISH & RICHARDSON P.C.
1221 McKinney Street,
Suite 2800
Houston, TX 77010

JUSTIN M. BARNES
TROUTMAN SANDERS LLP
11682 El Camino Real,
Suite 400
San Diego, CA 92130

KANNON K. SHANMUGAM
Counsel of Record
DAVID I. BERL
AMY MASON SAHARIA
MASHA G. HANSFORD
WILLIAM T. MARKS
J. MATTHEW RICE
WILLIAMS & CONNOLLY LLP
725 Twelfth Street, N.W.
Washington, DC 20005
(202) 434-5000
kshanmugam@wc.com

QUESTION PRESENTED

Whether a patentee that establishes infringement of its patent is entitled to recover lost profits under 35 U.S.C. 284 for a third party's subsequent foreign use of the infringing product.

CORPORATE DISCLOSURE STATEMENT

Respondent ION Geophysical Corporation is a publicly held company. ION Geophysical Corporation has no parent corporation, and no publicly held company owns 10% or more of its stock. (Invesco Ltd., which previously owned more than 10% of ION's stock, no longer does so.)

TABLE OF CONTENTS

Page

Opinions below 1
Jurisdiction 2
Statutory provisions involved 2
Statement 2
A. Background 4
B. Facts and procedural history 6
Summary of argument 11
Argument 15
The Patent Act does not permit the recovery of lost-profits damages for a third party's subsequent foreign use of a patented invention 15
A. Petitioner cannot recover foreign lost profits under 35 U.S.C. 284 15
1. Section 284 is subject to the presumption against extraterritoriality 15
2. Section 284 does not rebut the presumption against extraterritoriality, and the damages petitioner seeks are foreign in nature 19
B. Petitioner's and the government's arguments to the contrary are incorrect 24
1. Petitioner's arguments lack merit 25
a. Section 271(f)(2) does not overcome the presumption against extraterritoriality 25
b. Section 284 is subject to the presumption against extraterritoriality 31
2. The government's argument lacks merit because the lost-profits award constitutes an extraterritorial application of Section 284 34
3. Petitioner's and the government's remaining arguments are unavailing 37

Page

Table of contents—continued:

C. Petitioner's interpretation of the Patent Act would give rise to significant comity concerns 46

Conclusion 54

TABLE OF AUTHORITIES

Cases:

Alice Corp. v. *CLS Bank International*, 134 S. Ct. 2347 (2014) 49

Argentine Republic v. *Amerada Hess Shipping Corp.*, 488 U.S. 428 (1989) 17, 20

Astoria Federal Savings & Loan Ass'n v. *Solimino*, 501 U.S. 104 (1991) 21

Birdsall v. *Coolidge*, 93 U.S. 64 (1876) 44

Blatchford v. *Native Village of Noatak & Circle Village*, 501 U.S. 775 (1991) 21

Brown v. *Duchesne*, 60 U.S. (19 How.) 183 (1857) 16, 30, 45

Carnegie Mellon University v. *Marvell Technology Group, Ltd.*, 807 F.3d 1283 (Fed. Cir. 2015) ..... *passim*

Chicago & Southern Air Lines, Inc. v. *Waterman S.S. Corp.*, 333 U.S. 103 (1948) 51

Datascope Corp. v. *SMEC, Inc.*, 879 F.2d 820 (Fed. Cir. 1989) 42

Deepsouth Packing Co. v. *Laitram Corp.*, 406 U.S. 518 (1972) 4, 27, 29

Dowagiac Manufacturing Co. v. *Minnesota Moline Plow Co.*, 235 U.S. 641 (1915) ..... *passim*

Edwards Manufacturing Co. v. *Bradford Co.*, 294 F. 176 (2d Cir. 1923) 43

EEOC v. *Arabian American Oil Co.*, 499 U.S. 244 (1991) 15

European Community v. *RJR Nabisco, Inc.*, 764 F.3d 149 (2d Cir. 2014) 50

FDIC v. *Meyer*, 510 U.S. 471 (1994) 38

Page

Cases—continued:

F. Hoffmann-La Roche Ltd. v. *Empagran S.A.*, 542 U.S. 155 (2004) 22, 47
Feres v. *United States*, 340 U.S. 135 (1950) 38
Gardiner v. *Howe*, 9 F. Cas. 1157 (C.C.D. Mass. 1865) 53
General Motors Corp. v. *Devex Corp.*, 461 U.S. 648 (1983) 45
Halo Electronics, Inc. v. *Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016) 11
K.W. Ignition Co. v. *Temco Electric Motor Co.*, 283 F. 873 (6th Cir. 1922), cert. denied, 260 U.S. 746 (1923) 42
Ketchum Harvester Co. v. *Johnson Harvester Co.*, 8 F. 586 (C.C.N.D.N.Y. 1881) 42
Kiobel v. *Royal Dutch Petroleum Co.*, 569 U.S. 108 (2013) ..... *passim*
Life Technologies Corp. v. *Promega Corp.*, 137 S. Ct. 734 (2017) 5
Los Angeles News Service v. *Reuters Television International Ltd.*, 340 F.3d 926 (9th Cir. 2003), cert. denied, 541 U.S. 1041 (2004) 45, 46
Manufacturing Co. v. *Cowing*, 105 U.S. 253 (1882) ..... *passim*
Martha's Vineyard Scuba Headquarters, Inc. v. *Unidentified Vessel*, 833 F.2d 1059 (1st Cir. 1987) 53
Microsoft Corp. v. *AT&T Corp.*, 550 U.S. 437 (2007) ..... *passim*
Milwaukee & St. Paul Railway Co. v. *Kellogg*, 94 U.S. 469 (1876) 51
Morrison v. *National Australia Bank Ltd.*, 561 U.S. 247 (2010) ..... *passim*
Multiflex, Inc. v. *Samuel Moore & Co.*, 709 F.2d 980 (5th Cir. 1983), cert. denied, 465 U.S. 1100 (1984) 42
On-Line Technologies, Inc. v. *Perkin-Elmer Corp.*, 428 F. Supp. 2d 76 (D. Conn. 2006) 51

Page

Cases—continued:

Parks v. *Booth*, 102 U.S. 96 (1880) 43
Piaggio & C. v. *Cushman Motor Works, Inc.*, 416 F.2d 683 (7th Cir. 1969) 43
Power Integrations, Inc. v. *Fairchild Semiconductor International, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013), cert. denied, 134 S. Ct. 900 (2014) 9
Railroad Dynamics, Inc. v. *A. Stucki Co.*, 727 F.2d 1506 (Fed. Cir.), cert. denied, 469 U.S. 871 (1984) 42
Rite-Hite Corp. v. *Kelley Co.*, 56 F.3d 1538 (Fed. Cir.), cert. denied, 516 U.S. 867 (1995) 51
RJR Nabisco, Inc. v. *European Community*, 136 S. Ct. 2090 (2016) ..... *passim*
Sale v. *Haitian Centers Council, Inc.*, 509 U.S. 155 (1993) 17
Schneider (Europe) AG v. *SciMed Life Systems, Inc.*, 60 F.3d 839, 1995 WL 375949 (Fed. Cir.), cert. denied, 516 U.S. 990 (1995) 42
Sedima, S.P.R.L. v. *Imrex Co.*, 473 U.S. 479 (1985) 40
Sheldon v. *Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (1939), aff'd, 309 U.S. 390 (1940) 43, 44, 45
Smith v. *United States*, 507 U.S. 197 (1993) 17, 53
Tire Engineering & Distribution, LLC v. *Shandong Linglong Rubber Co.*, 682 F.3d 292 (4th Cir. 2012), cert. denied, 568 U.S. 1087 (2013) 45
United States v. *Microsoft Corp.*, cert. granted, No. 17-2 (argued Feb. 27, 2018) 34
Update Art, Inc. v. *Modiin Publishing, Ltd.*, 843 F.2d 67 (2d Cir. 1988) 45
W.S. Tyler Co. v. *Ludlow-Saylor Wire Co.*, 236 U.S. 723 (1915) 41, 42
Whitman v. *American Trucking Ass'ns*, 531 U.S. 457 (2001) 53
Wicker v. *Hoppock*, 73 U.S. (6 Wall.) 94 (1867) 21
Yale Lock Manufacturing Co. v. *Sargent*, 117 U.S. 536 (1886) 6

Page

Statutes:

Age Discrimination in Employment Act,
29 U.S.C. 621-634 32
29 U.S.C. 626(c) 32
29 U.S.C. 626(c)(1) 33
Alien Tort Statute, 28 U.S.C. 1350 18
Federal Tort Claims Act, 28 U.S.C. 2671-2680 38
Patent Act of 1952, Pub. L. No. 82-593,
66 Stat. 792 ..... *passim*
35 U.S.C. 154(a)(1) 4
35 U.S.C. 271 ..... 4, 5, 46
35 U.S.C. 271(a) 4, 9, 29
35 U.S.C. 271(b) 4
35 U.S.C. 271(c) 4
35 U.S.C. 281 5
35 U.S.C. 284 ..... *passim*
Patent Law Amendments Act of 1984,
Pub. L. No. 98-622, 98 Stat. 3383 5
35 U.S.C. 271(f) ..... *passim*
35 U.S.C. 271(f)(1) 5
35 U.S.C. 271(f)(2) ..... *passim*
Racketeer Influenced and Corrupt Organizations Act,
18 U.S.C. 1961-1968 ..... *passim*
18 U.S.C. 1962 17
18 U.S.C. 1964(c) 17
17 U.S.C. 504 45
28 U.S.C. 1254(1) 2

Miscellaneous:

James Ball & Harry Davies, *Where There Is Oil and Gas There Is Schlumberger*, The Guardian (May 18, 2015) <tinyurl.com/schlumb> 7
Mark Bartholomew & Patrick F. McArdle, *Causing Infringement*, 64 Vand. L. Rev. 675 (2011) 51
Gary B. Born & Peter B. Rutledge, *International Civil Litigation in United States Courts* (3d ed. 1996) 47

Page

Miscellaneous—continued:

Improving Federal Court Adjudication of Patent Cases: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary, 109th Cong. (2005) 47
International Agreement on Trade-Related Aspects of Intellectual Property Rights, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Apr. 15, 1994, 1869 U.N.T.S. 299 50
Jeffrey A. Meyer, *Extraterritorial Common Law: Does the Common Law Apply Abroad?*, 102 Geo. L.J. 301 (2014) 39
Patent Cooperation Treaty, 28 U.S.T. 7645, T.I.A.S. No. 8733 (June 19, 1970) 52
PricewaterhouseCoopers, *2017 Patent Litigation Study: Change on the Horizon?* (May 2017) <tinyurl.com/pwcpatentstudy2017> 28
S. Rep. No. 663, 98th Cong., 2d Sess. (1984) 30
WIPO Arbitration & Mediation Center, *Why Mediate/Arbitrate Intellectual Property Disputes?*, 42 les Nouvelles 301 (2007) 52

In the Supreme Court of the United States

No. 16-1011

WESTERNGECO LLC, PETITIONER

v.

ION GEOPHYSICAL CORPORATION

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR THE RESPONDENT

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-22a) is reported at 837 F.3d 1358. An earlier opinion of the court of appeals (Pet. App. 23a-75a) is reported at 791 F.3d 1340. The order of the court of appeals denying rehearing en banc (Pet. App. 176a-180a) is not published in the Federal Reporter, but is reprinted at 621 Fed. Appx. 663. The opinion of the district court (Pet. App. 76a-140a) is reported at 953 F. Supp. 2d 731.

JURISDICTION

The judgment of the court of appeals was entered on September 21, 2016. After an extension of time, the petition for a writ of certiorari was filed on February 17, 2017, and granted on January 12, 2018. The jurisdiction of this Court rests on 28 U.S.C. 1254(1).

STATUTORY PROVISIONS INVOLVED

The relevant statutory provisions, Section 271 and Section 284 of Title 35 of the United States Code, are reproduced in an appendix to this brief.

STATEMENT

This case presents a question of statutory interpretation concerning the availability of extraterritorial damages for domestic patent infringement. The presumption against extraterritoriality, which is at its peak in patent cases, instructs that "patent law operates only domestically and does not extend to foreign activities." *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 454-455 (2007) (internal quotation marks, citation, and alterations omitted). Petitioner seeks damages for lost profits from respondent for third parties' foreign use of a system patented in the United States. That foreign use is not controlled by respondent and does not constitute infringement under domestic law. Petitioner nevertheless claims that it may recover the lost-profits damages for that use from respondent under 35 U.S.C. 284, which provides that "the court shall award the claimant damages adequate to compensate for the infringement." The question presented is whether Section 284 permits the recovery of lost profits arising from a third party's subsequent foreign use of a system patented in the United States.

Respondent manufactures products used in marine seismic surveys, which search for oil and gas beneath the

ocean floor. During a marine survey, a specialized vessel pulls an array of cables, called "streamers," with sensors that map the composition of the ocean floor. Respondent manufactured a device, the DigiFIN, that helps control the steering of marine streamers. Respondent supplied DigiFINs to foreign entities, which used some of the DigiFINs, along with numerous other components, to outfit foreign-registered survey vessels and then perform surveys in international waters.

Petitioner manufactures products used in marine seismic surveys and uses those products to perform surveys in international waters with its own fleet of foreign-registered vessels. Petitioner holds patents related to a system for controlling the position of marine streamers.

As is relevant here, petitioner sued respondent for patent infringement under 35 U.S.C. 271(f)(2). Under that provision, a person commits patent infringement by supplying a specially adapted component of a patented system from the United States with the intent that it be combined abroad. A jury found in favor of petitioner and awarded $12.5 million in reasonable royalties for the supply of DigiFINs from the United States (later increased to $21.9 million); neither the jury's finding of infringement nor the award of those damages is disputed here. But the jury also awarded petitioner a whopping $93.4 million in lost profits based on petitioner's failure to win contracts for ten surveys performed in international waters by foreign entities that used DigiFINs.

Respondent moved to vacate the lost-profits award. The district court denied the motion, but the court of appeals reversed. While the court of appeals reiterated that petitioner was entitled to a reasonable royalty, it held that the Patent Act does not entitle petitioner to its lost profits for third parties' foreign uses of a system patented in the

United States. The court of appeals' holding was correct, and its judgment should be affirmed.

A. Background

1. Under the Patent Act of 1952, a patent confers exclusive rights in an invention only within the United States. See 35 U.S.C. 154(a)(1); *Microsoft*, 550 U.S. at 455. Section 271 of the Patent Act defines multiple forms of patent infringement. Section 271(a) deems it infringement to "make[], use[], offer[] to sell, or sell[] any patented invention, within the United States." Section 271(b) imposes liability on anyone who "actively induces infringement." And Section 271(c) defines as contributory infringement the act of "offer[ing] to sell or sell[ing] within the United States" or "import[ing] into the United States" a material component of a patented invention knowing that it is adapted for infringing use.

As revealed by the Court's decision in *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972), those provisions left a gap in domestic patent law. In *Deepsouth*, the defendant made all the components of a patented shrimp-deveining machine in the United States and shipped them abroad, with the intent that the purchasers assemble the components (which could be done readily). See *id.* at 523-524. The Court observed that the combination of the components did not constitute infringement because it took place abroad, outside the reach of the Patent Act. See *id.* at 527. And it held that making and selling the components in the United States, whatever the intent, did not constitute "mak[ing]" the patented machine in the United States, as is required for infringement under Section 271(a). See *id.* at 527-528. Accordingly, the Court held that the Patent Act did not prohibit the defendant's actions. See *id.* at 532.

In response, Congress added a new subsection, Section 271(f), to close the gap in the Patent Act's coverage. See Patent Law Amendments Act of 1984, Pub. L. No. 98-622, § 101, 98 Stat. 3383; *Life Technologies Corp.* v. *Promega Corp.*, 137 S. Ct. 734, 742-743 (2017). As is relevant here, Section 271(f)(2) provides that a person commits infringement when he "supplies or causes to be supplied" "in or from the United States" a component specially adapted for use in a patented invention, with the intent that "such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States."[1]

Consistent with the Patent Act's territorial focus, Congress did not make the foreign combination itself an act of infringement under domestic patent law—an approach that, by virtue of its extraterritorial reach, could have "create[d] friction with other nations." Pet. Br. 1. Instead, it is the act of supplying a particular component from the United States *with the intent that it be combined* that constitutes infringement under Section 271(f)(2); the foreign combination need not actually occur.

2. Section 281 provides a patentee with a civil right of action for infringement of its patent, and the ensuing provisions set out a variety of remedies available in such an action. Section 284 specifies the damages available for all forms of patent infringement defined in Section 271. It instructs courts to award a patentee "damages adequate

---

[1] Section 271(f)(1), which was added in the same amendment, makes it infringement to supply all or a substantial portion of the components of an invention "in or from the United States" "in such manner as to actively induce" their combination abroad. 35 U.S.C. 271(f)(1). The district court entered judgment in this case under both Section 271(f)(1) and (f)(2), but the court of appeals sustained liability only under Section 271(f)(2). Pet. App. 38a. Petitioner does not challenge that aspect of the court of appeals' ruling in this Court.

to compensate for the infringement," along with interest and costs. It also provides that the damages should "in no event [be] less than a reasonable royalty for the use made of the invention by the infringer." This Court has held that patent law permits the recovery of lost-profits damages as a remedy for patent infringement. See *Yale Lock Manufacturing Co.* v. *Sargent*, 117 U.S. 536, 552-553 (1886).

B. Facts And Procedural History

1. Respondent is a Texas-based company that, among other things, manufactures products used in marine seismic surveys, which are conducted to search for oil and gas beneath the ocean floor. During a marine survey, which usually takes months to complete, a ship pulls an array of lengthy floating cables, called "streamers." Those streamers contain sensors that collect data from soundwaves reflecting off the ocean floor to map the composition of the subsurface geology. Pet. App. 24a-25a.

One of respondent's products, the DigiFIN, helps control the steering of marine streamers. Respondent supplied DigiFINs to foreign entities. Some of those entities subsequently performed marine surveys with their foreign-registered vessels in international waters using, among numerous other components, respondent's DigiFINs. For example, in two instances, Petroleum GeoServices (a Norwegian company) conducted surveys for Statoil (the Norwegian state oil company) in waters near Norway. None of the surveys at issue was performed by American entities or in American waters. More than two hundred DigiFINs shipped abroad remained in a warehouse and were never used in surveying systems. Pet. App. 24a-25a, 40a; J.A. 81-82; C.A. App. 82.

Petitioner is an American subsidiary of Schlumberger, a France-based multinational company that has been described as "the biggest company you've never heard of." See James Ball & Harry Davies, *Where There Is Oil and Gas There Is Schlumberger*, The Guardian (May 18, 2015) <tinyurl.com/schlumb>. Schlumberger is, among other things, the world's largest provider of oilfield services. Petitioner manufactures products used in marine seismic surveys. It uses those products to perform surveys in international waters using its own fleet of foreign-registered vessels. Petitioner holds patents related to a system for controlling the position of marine streamers. Pet. App. 25a.

2. In 2009, petitioner sued respondent for patent infringement in the United States District Court for the Southern District of Texas. It was undisputed at trial that the DigiFIN did not itself infringe any asserted patent. Rather, petitioner argued that the only substantial use for a DigiFIN (and a related controller) was to be combined with other surveying equipment. Petitioner further argued that such a combination, if assembled with the other components in the United States, would have infringed its patents related to a marine survey system. Each of the approximately 2,500 DigiFINs at issue in the trial was made in and supplied from the United States. Pet. App. 25a-26a, 80a, 118a.

As damages, petitioner sought reasonable royalties from the sale of each DigiFIN; it also sought lost profits as to certain DigiFINs. Petitioner did not seek lost profits on the theory that it would have sold its own devices *from the United States* that competed with DigiFINs; in fact, petitioner did not separately sell the corresponding components of its marine steering system. Pet. App. 40a, 120a-121a.

Instead, petitioner argued that *foreign purchasers* of DigiFINs competed with it for contracts entered abroad to conduct marine surveys on foreign-registered ships in international waters. Specifically, petitioner asserted that those foreign entities won contracts for ten surveys that it would have won if the foreign entities had been unable to use DigiFINs. Petitioner contended that it was entitled to an award of all of the profits for those months-long surveys—profits that dwarfed respondent's own profits from sales of DigiFINs. Pet. App. 40a-41a; J.A. 81-82; C.A. App. 3439-3440.

After trial, a jury found that petitioner's patents were valid and that respondent had infringed six of petitioner's asserted patent claims under Section 271(f)(2).[2] The jury awarded petitioner $12.5 million in reasonable royalties and $93.4 million in lost profits. Pet. App. 170a-175a.[3]

3. Respondent filed several post-trial motions, including a motion to set aside the lost-profits award or, in the alternative, for a new trial on damages. Respondent argued that the lost-profits award constituted an impermissible extraterritorial application of domestic patent law. Pet. App. 76a-77a, 116a.

---

[2] After the jury's verdict, the Patent Trial and Appeal Board (PTAB) invalidated four of the six claims. See *Petroleum Geo-Services Inc.* v. *WesternGeco LLC*, Nos. IPR2014-00687, IPR2014-00688 & IPR2014-00689 (Dec. 15, 2015). Petitioner has appealed the PTAB's ruling to the Federal Circuit, and that appeal remains pending. See *WesternGeco LLC* v. *ION Geophysical Corp.*, No. 16-2099 (argued Jan. 23, 2018). If the Federal Circuit affirms the PTAB's decisions, respondent intends to seek a new trial as to damages on that basis.

[3] Because petitioner could not receive both a reasonable royalty and lost-profits damages as to any given DigiFIN, the district court interpreted the jury's royalty award as limited to the DigiFINs that were not used in the ten surveys for which it awarded lost profits. Pet. App. 116a, 121a-122a.

The district court denied the motion. Pet. App. 116a-118a. It concluded that recovery for foreign activities is appropriate when the foreign activities would not have occurred but for an act of domestic infringement. *Id.* at 118a.

The district court subsequently supplemented the award of reasonable royalties based on approximately 1,700 additional DigiFINs supplied from the United States identified after trial, resulting in a total reasonable-royalty award of $21.9 million. The district court also permanently enjoined further DigiFIN sales from the United States. Pet. App. 139a, 168a, 175a; C.A. App. 94.

4. The court of appeals reversed in relevant part. Pet. App. 23a-53a.

a. The court of appeals held that the Patent Act did not allow petitioner to recover damages for its lost profits stemming from the loss of contracts to conduct foreign surveys. Pet. App. 40a. The court first recognized that the presumption against extraterritoriality applies with particular force in the patent context. *Id.* at 41a. The court explained that "[i]t is clear that under [Section] 271(a) the export of a finished product cannot create liability for extraterritorial use of that product." *Id.* at 42a-44a (citing *Power Integrations, Inc.* v. *Fairchild Semiconductor International, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013), cert. denied, 134 S. Ct. 900 (2014)). There was no valid basis for a different result, the court reasoned, when the underlying infringement occurred under Section 271(f)(2), because the liability under that provision still "attaches in the United States." *Id.* at 44a.

"[T]he fact that [petitioner] is not entitled under United States patent law to lost profits from the foreign uses of its patented invention," the court of appeals continued, "does not mean that it is entitled to no compensation"; respondent could (and did) recover a reasonable

royalty. Pet. App. 45a. The court further noted that lost profits from the patentee's sale of a patented item made in the United States to a foreign buyer may well be recoverable. *Id.* at 46a. But the court reasoned that damages could not be recovered for foreign sales where no part of the transaction occurred in the United States. *Ibid.* (citing *Dowagiac Manufacturing Co.* v. *Minnesota Moline Plow Co.*, 235 U.S. 641 (1915)).[4]

b. Judge Wallach dissented. Pet. App. 54a-75a. He recognized that "patent rights granted by the United States are geographically limited." *Id.* at 54a. He further acknowledged that the "general principles of full compensation" reflected in Section 284 "do not directly address the question of whether foreign activities may be considered when calculating such compensation." *Id.* at 57a. But he viewed this Court as having already "answered this question in the affirmative" in *Manufacturing Co.* v. *Cowing*, 105 U.S. 253 (1882). Pet. App. 57a-58a. In Judge Wallach's view, Section 284 permitted patentees to recover all damages, including extraterritorial damages, that were connected to a domestic act of infringement. *Id.* at 56a-57a.

5. The court of appeals denied rehearing en banc. Pet. App. 176a-177a. Judge Wallach, joined by Judges Newman and Reyna, dissented. *Id.* at 178a-180a. Judge Wallach renewed his arguments from his earlier panel dissent and additionally argued that the court of appeals'

---

[4] Respondent also argued that the evidence was insufficient for the jury to find causation of the lost-profits damages under the jury instructions given in the case. See Resp. C.A. Br. 56-58. The court of appeals did not address the argument, see Pet. App. 40a-48a, and it remains open for consideration on remand if the Court reverses—as petitioner previously recognized (but inexplicably now elides). Compare Cert. Reply Br. 11 with Br. 55.

holding was at odds with copyright law's predicate-act doctrine. *Ibid.*

6. Petitioner sought certiorari both as to the ruling on lost profits and as to an unrelated ruling on enhanced damages. This Court vacated and remanded for further consideration in light of *Halo Electronics, Inc.* v. *Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016), which addressed the standard for an enhanced-damages award. See 136 S. Ct. 2486 (2016).

On remand, the court of appeals vacated the judgment with respect to enhanced damages and remanded for further consideration. Pet. App. 1a-12a.[5] The court reinstated its earlier opinion in all other respects. *Id.* at 12a. Judge Wallach reiterated his dissent as to the court of appeals' earlier lost-profits holding. *Id.* at 13a-22a.

SUMMARY OF ARGUMENT

Petitioner seeks to recover the profits it would have earned for conducting marine surveys in international waters, on the theory that it would have secured the contracts to conduct those surveys if the foreign entities that won the contracts were unable to use DigiFINs supplied by respondent. The Patent Act, however, does not allow recovery for an injury that occurred outside the territorial jurisdiction of the United States. The presumption against extraterritoriality forecloses petitioner's claimed lost-profits damages in this case, and the judgment of the court of appeals should therefore be affirmed.

A. "The presumption that United States law governs domestically but does not rule the world applies with particular force in patent law." *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 454-455 (2007). And as this Court has

---

[5] The district court subsequently awarded petitioner $5 million in enhanced damages. See D. Ct. Dkt. 770 (July 26, 2017).

made clear, that presumption applies to all statutory provisions—including separately to provisions governing conduct and providing relief within a single statutory scheme. See *RJR Nabisco, Inc.* v. *European Community*, 136 S. Ct. 2090, 2106 (2016). The question presented here, therefore, is whether the Patent Act's damages provision, 35 U.S.C. 284, permits petitioner to recover lost profits from respondent, a component manufacturer, for third parties' foreign use of a system patented in the United States.

Applying this Court's two-step framework for analyzing the extraterritorial effect of a statute, the answer is plainly no. As to the first step: Section 284, which instructs a court to "award the claimant damages adequate to compensate for the infringement," gives no "clear, affirmative indication" of extraterritorial reach. *RJR Nabisco*, 136 S. Ct. at 2101. The government concedes as much, and petitioner makes no real effort to argue otherwise. As to the second step: it cannot seriously be disputed that awarding lost-profits damages here requires a foreign application of the statute, because it compensates petitioner for a foreign injury—one that occurred outside the United States only after third parties took actions abroad. Indeed, petitioner repeatedly dubs its lost profits "foreign." The only link that petitioner's foreign injury has to the United States is that respondent's act of domestic infringement is a but-for cause of that injury—a link the Court has deemed insufficient in applying the presumption against extraterritoriality.

B. Both petitioner and the government urge a contrary result, but they offer starkly divergent arguments. None of those arguments can overcome the straightforward application of this Court's extraterritoriality precedents.

Petitioner primarily contends that Section 271(f)(2) defeats the presumption against extraterritoriality in the circumstances of this case. That argument misapprehends the extraterritoriality analysis, which applies separately to each provision of a statute—including the relevant provision here, Section 284. But petitioner's argument makes little sense even on its own terms. As petitioner repeatedly concedes, Section 271(f)(2) regulates only *domestic* conduct. Petitioner contends that, absent extraterritorial damages, a plaintiff proceeding under Section 271(f)(2) would be left with no remedy at all. But that is simply incorrect, as this case illustrates. Such a plaintiff is entitled to a reasonable royalty as to each component supplied from the United States; lost profits for any lost sales from the United States; and injunctive relief.

Turning to Section 284, petitioner has conspicuously little to say. All but ignoring this Court's most recent extraterritoriality decisions, petitioner argues that the presumption against extraterritoriality does not apply to Section 284. Specifically, petitioner contends that the presumption can apply only once within a single statutory scheme, but the Court squarely rejected that proposition in *RJR Nabisco*. Petitioner also suggests that the presumption concerns itself primarily with provisions regulating conduct and not with remedial provisions, but the Court has rejected that proposition as well.

For its part, the government does not dispute that the presumption against extraterritoriality applies to Section 284, and it concedes that Section 284 fails to overcome the presumption. Nor does it argue that Section 271(f)(2) alters that conclusion. Instead, the government offers a different argument: that applying Section 284 to award lost profits for petitioner's foreign injury constitutes a domestic application of the provision. That is plainly incorrect.

Petitioner seeks compensation for the profits it would have earned outside the United States, but lost as a result of post-infringement foreign activity by third parties.

None of petitioner's or the government's remaining arguments salvages their positions. The common-law-based hypotheticals they offer involve domestic, not foreign, injury. The Court's decision in *Manufacturing Co.* v. *Cowing*, 105 U.S. 253 (1882), did not address the question presented here, and *Dowagiac Manufacturing Co.* v. *Minnesota Moline Plow Co.*, 235 U.S. 641 (1915), emphasizes that damages are unavailable for purely foreign transactions, underscoring the extraterritorial nature of the damages petitioner seeks in this case. And the predicate-act doctrine developed by lower courts in the copyright context is premised on the domestic imposition of a constructive trust on an *infringer's* profits—a remedy that is unavailable under modern patent law.

C. Petitioner's proposed rule is intolerable as a matter of policy. Petitioner's rule would transform any domestic act of infringement into a springboard for worldwide patent damages, and thereby expose companies with design operations in the United States to staggering awards. As this Court has recognized, competing views of appropriate remedies are a major source of international tension. Given the outsized awards available in the United States for patent infringement, petitioner's rule has grave implications for international comity. And while petitioner suggests that causation principles offer a meaningful limit, juries are not equipped to consider the comity implications of the damages they award.

In short, this is the paradigmatic situation in which the presumption against extraterritoriality should be applied. Congress must speak clearly if it wishes to make extraterritorial damages available under the patent laws, and it has not done so to date. The court of appeals therefore

correctly applied the presumption against extraterritoriality, and its judgment should be affirmed.

ARGUMENT

THE PATENT ACT DOES NOT PERMIT THE RECOVERY OF LOST-PROFITS DAMAGES FOR A THIRD PARTY'S SUBSEQUENT FOREIGN USE OF A PATENTED INVENTION

A. Petitioner Cannot Recover Foreign Lost Profits Under 35 U.S.C. 284

The Patent Act's damages provision, 35 U.S.C. 284, allows a claimant to recover "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." The question presented is whether a patentee that establishes infringement is entitled to recover lost profits for a third party's subsequent foreign use of the infringing product.

A straightforward application of this Court's extraterritoriality precedents dictates that the answer to that question is no. Like all other statutes, Section 284 is subject to the presumption against extraterritoriality. Section 284 contains no clear indication that Congress intended to give it extraterritorial reach. Nor is the recovery of foreign lost profits a permissible domestic application of that provision. The court of appeals was therefore correct to overturn the jury's lost-profits award in this case.

1. Section 284 Is Subject To The Presumption Against Extraterritoriality

a. It is a "longstanding principle of American law that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States." *EEOC* v. *Arabian American Oil Co.*,

499 U.S. 244, 248 (1991) (internal quotation marks and citation omitted). Accordingly, "[a]bsent clearly expressed congressional intent to the contrary, federal laws will be construed to have only domestic application." *RJR Nabisco, Inc.* v. *European Community*, 136 S. Ct. 2090, 2100 (2016).

"The presumption that United States law governs domestically but does not rule the world," moreover, "applies with particular force in patent law." *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 454-455 (2007). That is because patent law is inherently "domestic in its character, and necessarily confined within the limits of the United States." *Brown* v. *Duchesne*, 60 U.S. (19 How.) 183, 195 (1857). Applying American patent law extraterritorially would intrude upon the intellectual-property regimes of other countries, which "may embody different policy judgments about the relative rights of inventors, competitors, and the public in patented inventions." *Microsoft*, 550 U.S. at 455 (quoting U.S. Br. at 28, *Microsoft* (No. 05-1056)).

Under the Patent Act, the United States does not exercise patent control over foreign markets, and it "correspondingly reject[s] the claims of others to such control over our markets." *Microsoft*, 550 U.S. at 455 (citation omitted). As a result, "the use of [a patentee's invention] outside of the jurisdiction of the United States is not an infringement of his rights, and he has no claim to any compensation for the profit or advantage the party may derive from it." *Brown*, 60 U.S. (19 How.) at 195-196.

b. It is well established that the presumption against extraterritoriality applies to all statutory provisions, even those that "do[] not directly regulate conduct." *Kiobel* v. *Royal Dutch Petroleum Co.*, 569 U.S. 108, 116 (2013). The presumption applies "regardless of whether the statute in

question regulates conduct, affords relief, or merely confers jurisdiction." *RJR Nabisco*, 136 S. Ct. at 2101. This Court has applied the presumption to a wide range of statutes. See, *e.g.*, *Kiobel*, 569 U.S. at 116 (statute conferring federal-court jurisdiction over causes of action alleging international-law violations); *Sale* v. *Haitian Centers Council, Inc.*, 509 U.S. 155, 170-177 (1993) (statute limiting the Executive Branch's immigration authority); *Smith* v. *United States*, 507 U.S. 197, 201, 203-204 (1993) (statute waiving sovereign immunity for certain actions against the government); *Argentine Republic* v. *Amerada Hess Shipping Corp.*, 488 U.S. 428, 439-441 (1989) (statute denying immunity to foreign states for actions seeking damages based on the tortious acts of their officials or employees).

As the Court recently made clear in *RJR Nabisco*, the presumption also applies "separately" to provisions regulating conduct and provisions affording relief, even if those provisions reside in a single statutory scheme. See 136 S. Ct. at 2106. *RJR Nabisco* involved the question whether the private right of action in the Racketeer Influenced and Corrupt Organizations Act (RICO), 18 U.S.C. 1964(c), provides redress for injuries suffered outside the United States. See 136 S. Ct. at 2099. One provision of RICO renders "unlawful" certain "racketeering activity," 18 U.S.C. 1962, while another grants a private right of action to "[a]ny person injured in his business or property by reason of a violation of section 1962," 18 U.S.C. 1964(c). Because of RICO's statutory structure, the Court viewed the question whether RICO provides redress for foreign injuries as "really involv[ing] two questions": first, whether "RICO's substantive prohibitions * * * apply to conduct that occurs in foreign countries," and second, whether "RICO's private right of action * * * appl[ies]

to injuries that are suffered in foreign countries." 136 S. Ct. at 2099.

The Court answered the first question "sometimes" and the second question "no." The Court concluded that some of RICO's substantive prohibitions extended to acts in foreign countries, but that RICO did not "provide[] a clear indication that Congress intended to create a private right of action for injuries suffered outside of the United States." 136 S. Ct. at 2108. As a result, RICO's private right of action "d[id] not overcome the presumption against extraterritoriality." *Id.* at 2106.

Of particular relevance here, the Court rejected the Second Circuit's position that "the presumption against extraterritoriality d[oes] not apply to [RICO's private right of action] independently of its [substantive provisions]." 136 S. Ct. at 2106. The Second Circuit had reasoned that the presumption "is primarily concerned with the question of what *conduct* falls within a statute's purview," and thus that the extraterritorial reach of RICO's private right of action "flows directly" from the extraterritorial reach of its substantive prohibitions. *Id.* at 2106, 2108 (citation omitted).

This Court disagreed, noting that it had already "rejected that view in *Kiobel*." 136 S. Ct. at 2106. There, the Court had applied the presumption against extraterritoriality to the Alien Tort Statute, a "strictly jurisdictional statute that does not directly regulate conduct or afford relief," even though "the underlying substantive law consisted of well-established norms of international law, which by definition apply beyond this country's borders." *Ibid.* (internal quotation marks and citations omitted).

Applying "[t]he same logic" in *RJR Nabisco*, the Court reasoned that it must "separately apply the presumption against extraterritoriality to RICO's cause of action despite [its] conclusion that the presumption has

been overcome with respect to RICO's substantive prohibitions." 136 S. Ct. at 2106. In particular, the Court noted that provisions establishing private remedies "raise[] issues beyond the mere consideration whether underlying primary conduct should be allowed," "creat[ing] a potential for international friction beyond that presented by merely applying U.S. substantive law to that foreign conduct." *Ibid.* (citation omitted). Accordingly, the question here is whether Section 284, the remedial provision directly at issue, itself rebuts the presumption.

2. Section 284 Does Not Rebut The Presumption Against Extraterritoriality, And The Damages Petitioner Seeks Are Foreign In Nature

This Court analyzes the extraterritorial application of statutes using a two-step framework. At the first step, the Court "ask[s] whether the presumption against extraterritoriality has been rebutted—that is, whether the statute gives a clear, affirmative indication that it applies extraterritorially." *RJR Nabisco*, 136 S. Ct. at 2101. If the statute does not apply extraterritorially, the Court proceeds to the second step, considering "whether the case involves a domestic application of the statute." *Ibid.* If the conduct "relevant to the [statute's] focus" occurred outside the United States, the case "involves an impermissible extraterritorial application regardless of any other conduct that occurred in U.S. territory." *Ibid.* Under that framework, awarding damages that compensate for a third party's subsequent use of an infringing product constitutes an impermissible extraterritorial application of Section 284.

a. Section 284 provides that "[u]pon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." As the government concedes,

under the first step of the extraterritoriality analysis, "Section 284 does not contain any clear, affirmative indication that it applies extraterritorially." Br. 25 (internal quotation marks, citation, and alteration omitted). Similarly, petitioner does not assert that anything in the text of Section 284 provides the requisite affirmative indication.

The absence of any dispute at the first step is unsurprising, because Section 284 plainly does not rebut the presumption. It does not mention compensation for injuries that occur outside the United States, nor does it otherwise indicate that it applies abroad. Cf. *RJR Nabisco*, 136 S. Ct. at 2101 (identifying a clear indication of extraterritorial application in statutory language expressly encompassing acts that "tak[e] place outside the United States"). Nor does Section 284 address the double-recovery issues that would arise if extraterritorial damages could be collected in the United States and collected again by suing the foreign entities for the foreign activity in the country in which it occurred. See *Morrison* v. *National Australia Bank Ltd.*, 561 U.S. 247, 269 (2010).

Instead, Section 284 merely provides for damages "adequate to compensate for the infringement." That language is far too generic to supply the "clear, affirmative indication" of extraterritorial application required to overcome the presumption. *RJR Nabisco*, 136 S. Ct. at 2101. This Court has recognized that statutes that purport to reach "any" civil action or to provide a remedy for "any" person injured are "insufficient to displace the presumption against extraterritoriality," despite the "breadth" of the word "any." *Id.* at 2108; see *Kiobel*, 569 U.S. at 118. Similarly, the Court has recognized that the term "waters" does not include the high seas without some affirmative indication of that intent. See *Argentine*

Republic, 488 U.S. at 440. In other words, the presumption against extraterritoriality limits to domestic application language that could otherwise be read to have worldwide reach. *A fortiori*, a damages provision that provides for "adequate" compensation does not clearly and unmistakably indicate an intent to provide compensation for foreign injuries based on foreign activities.

Petitioner cites (Br. 23-25) the "general rule" at common law that compensatory damages should place the injured party "in the situation he would have occupied if the wrong had not been committed." *Wicker* v. *Hoppock*, 73 U.S. (6 Wall.) 94, 99 (1867). To be sure, "Congress is understood to legislate against a background of common-law adjudicatory principles." *Astoria Federal Savings & Loan Ass'n* v. *Solimino*, 501 U.S. 104, 108 (1991). But the full-compensation principle typically applies in cases with no extraterritorial component, and petitioner presents no evidence that the principle was developed with extraterritorial considerations in mind.

In any event, a background principle does not suffice to provide the "clear, affirmative indication" of congressional intent required to rebut the presumption against extraterritoriality. *RJR Nabisco*, 136 S. Ct. at 2101.[6] A contrary rule would require Congress to provide an affirmative indication of its intent to *avoid* the extraterritorial application of its statutes, flipping the presumption against extraterritoriality on its head. Congress has not "affirmatively and unmistakably instructed" that Section 284 have extraterritorial application, and that should be the end of the analysis. *Id.* at 2100.

---

[6] Cf. *Blatchford* v. *Native Village of Noatak & Circle Village*, 501 U.S. 775, 787-788 (1991) (holding that a jurisdictional statute relating to actions brought by Indian tribes did not contain the necessary clear statement to abrogate sovereign immunity, despite the longstanding canon resolving statutory ambiguities in favor of tribes).

In determining whether a statutory provision affords relief for extraterritorial injuries, the "relevant background principle" is the presumption against extraterritoriality, *RJR Nabisco*, 136 S. Ct. at 2109, and the related rule that courts should interpret a statute to "avoid unreasonable interference with the sovereign authority of other nations," *F. Hoffmann-La Roche Ltd.* v. *Empagran S.A.*, 542 U.S. 155, 164 (2004). Other nations have indicated time and again that the size and scope of American damages awards can create international friction. See, *e.g.*, *RJR Nabisco*, 136 S. Ct. at 2107 n.9 (citing other nations' amicus briefs). For that reason, it makes little sense to assume that Congress intended to permit the recovery of foreign damages here.

In sum, as the government acknowledges, Section 284 lacks any clear indication that it applies extraterritorially. And as this Court has explained, "[w]hen a statute gives no clear indication of an extraterritorial application, it has none." *Morrison*, 561 U.S. at 255.

b. The second step of the extraterritoriality analysis asks "whether the case involves a domestic application of the statute." *RJR Nabisco*, 136 S. Ct. at 2101. Compensating petitioner for its lost profits here would constitute a foreign, not domestic, application of Section 284.

As noted above, Section 284 provides for "damages adequate to compensate for the infringement," and it also contains other provisions related to an award of damages. See pp. 5-6, *supra*. The statute's "focus," then, is self-evidently on the award of damages. See 35 U.S.C. 284; *RJR Nabisco*, 136 S. Ct. at 2101; *Morrison*, 561 U.S. at 266-267.

The lost-profits damages award in this case was foreign, not domestic, in nature. The injury for which petitioner seeks lost-profits damages occurred extraterritorially, and foreign conduct subsequent to respondent's infringement was necessary to give rise to the injury. Here,

after respondent supplied DigiFINs from the United States, foreign entities won contracts (entered abroad) for marine surveys they would perform using DigiFINs on foreign-flagged vessels in international waters; petitioner did not win those contracts and did not earn the profits from performing the surveys. Critically, the injury compensated by the lost-profits damages did not occur when respondent supplied DigiFINs from the United States and thereby infringed petitioner's patents; instead, it occurred only after foreign entities won the contracts and petitioner thereby lost a foreign stream of profits because of the foreign entities' foreign use of DigiFINs.

The only link the injury has to the United States is that (according to petitioner) the third parties that won the contracts would have been unable to do so if they had been unable to use DigiFINs supplied from the United States; put differently, respondent's infringement, a necessary but not sufficient factor in the chain of events that ultimately led to petitioner's injury, occurred in the United States. See Pet. App. 40a-41a. But this Court has already made clear that such an attenuated link does not suffice to render the application of a statute domestic, rejecting a test proposed by the government that would have rendered an application domestic whenever "significant conduct" in the United States is a but-for cause. See *Morrison*, 561 U.S. at 257, 266, 270-273 & n.11. As the Court colorfully put it, "the presumption against extraterritorial application would be a craven watchdog indeed if it retreated to its kennel whenever *some* domestic activity is involved in the case." *Id.* at 266.

The best evidence on this point? Petitioner itself repeatedly characterizes the lost profits at issue here as "*foreign* lost profits." Br. 3, 19, 37-38, 41, 47, 54 (emphasis added). And as this Court has explained, providing "re-

covery for foreign injuries" constitutes a foreign application of a statute—regardless of the fact that the conduct relevant to the substantive violation is domestic, because the extraterritoriality of the substantive and remedial provisions is to be analyzed separately. *RJR Nabisco*, 136 S. Ct. at 2111.

Once it is properly understood to be limited to "domestic damages," Section 284 plainly does not allow the lost-profits award at issue here. The award of such damages, meant to compensate for petitioner's foreign injury as a result of the foreign conduct of respondents' foreign purchasers, constituted an impermissible extraterritorial application of Section 284.

B. Petitioner's And The Government's Arguments To The Contrary Are Incorrect

Petitioner and the government contend that the award of lost-profits damages in this case was permissible, but they offer wildly differing reasons why. Petitioner principally argues that Section 271(f)(2), which it concedes applies only to domestic conduct, suffices to overcome the presumption against extraterritoriality in the circumstances of this case. In addition, petitioner argues that the presumption does not apply to Section 284, both because Congress need not separately express its intent for extraterritorial application as to multiple provisions within a single statutory scheme and because the presumption should not apply to remedial provisions. Those arguments are incorrect, and the government declines to advance them.

For its part, the government recognizes that the presumption against extraterritoriality applies to Section 284; that Section 284 does not overcome the presumption; and that Section 284 must therefore be limited to territo-

rial applications. But it argues that the foreign lost-profits award in this case actually constitutes a domestic application of Section 284. That argument is also incorrect, as petitioner repeatedly acknowledges.

In support of their various arguments, petitioner and the government rely on a set of hypothetical examples and century-old cases. But they offer no valid basis for interpreting the Patent Act to permit the award of damages for foreign entities' foreign use of a patented system. Nor does the predicate-act doctrine of copyright law—which allows an award of *infringer's* profits that have their situs in the United States—support the interpretation of patent law that petitioner and the government seek. That interpretation should be rejected.

1. Petitioner's Arguments Lack Merit

a. Section 271(f)(2) Does Not Overcome The Presumption Against Extraterritoriality

Petitioner primarily argues (Br. 34-39) that Section 271(f)(2) satisfies the presumption against extraterritoriality in the "situation" presented here. That argument badly distorts the extraterritoriality analysis, and it makes little sense given petitioner's concession that Section 271(f)(2) applies only to domestic conduct.

i. To begin with, petitioner's amorphous argument addresses the wrong provision. The question presented here—whether the lost-profits award was appropriate—is governed by Section 284, not Section 271(f)(2), as the government acknowledges. See U.S. Br. 25-33. Petitioner never meaningfully engages with Section 284, which plainly does not apply extraterritorially. See pp. 19-22, *supra*. As we have demonstrated, however, this Court has made clear that the extraterritoriality analysis must proceed on a provision-by-provision basis. See pp. 16-19, *supra*.

Petitioner makes no effort to explain how *Section 271(f)(2)* can overcome the presumption against extraterritoriality that applies to *Section 284*. Petitioner argues that, in enacting Section 271(f)(2), Congress must have anticipated that the combined invention would be used abroad, even though it "did not make [that] foreign conduct directly unlawful." Br. 30; see Br. 37-39. Petitioner appears to believe that the "predictab[ility]" of foreign damages in Section 271(f)(2) cases is sufficient to impart the requisite extraterritorial reach to Section 284. See Br. 18.

But that effort to render Section 284 extraterritorial by osmosis—and thus to do "[in]directly" what Congress chose not to do "directly," Pet. Br. 30—gets it exactly backwards. Congress must speak clearly and specifically to give a statute extraterritorial reach, and that extraterritorial reach is limited to the relevant terms rather than spilling over to other statutory provisions (or other aspects of the same provision). Even if Section 271(f)(2) and Section 284 were part of the same statutory provision (and they are not),[7] and even if Section 271(f)(2) had some extraterritorial reach (and it concededly does not), the presumption against extraterritoriality would "operate[] to limit" the extraterritorial reach of Section 271(f)(2) "to its terms," rather than expanding it to the damages awarded under Section 284. *Morrison*, 561 U.S. at 265; see *RJR Nabisco*, 136 S. Ct. at 2102.

ii. Petitioner's argument fails even on its own terms. Petitioner maintains that Congress was not "legislating with wholly domestic considerations in mind" when it enacted Section 271(f)(2). Br. 34. Even if that were true,

---

[7] In fact, Congress enacted Section 284 more than two decades before enacting Section 271(f)(2), and it has not materially modified it since. See Patent Act of 1952, § 284, Pub. L. No. 82-593, 66 Stat. 813.

however, it would not suffice to give Section 271(f)(2) extraterritorial application. As this Court has explained, "[t]he question is not whether [the Court] think[s] Congress would have wanted" a particular foreign application, "but whether Congress has affirmatively and unmistakably instructed that the statute will do so." *RJR Nabisco*, 136 S. Ct. at 2100 (internal quotation marks and citation omitted). Congress did not provide such an instruction in Section 271(f)(2).[8]

Indeed, petitioner concedes that Section 271(f)(2) applies only to domestic conduct. See, *e.g.*, Br. 2, 8, 21, 26-28, 30.[9] That concession is prudent, because Section 271(f)(2) governs only a domestic act (supplying components from the United States) done with a certain intent. As a result, a violation of Section 271(f)(2) is complete before the combination of components occurs—and even if the combination does not take place. In fact, more than two hundred DigiFINs shipped abroad remained in a warehouse and were never used in surveying systems, yet petitioner received reasonable-royalty damages for respondent's supply of those DigiFINs from the United States. See Pet. App. 168a; C.A. App. 82.

Notably, in responding to the *Deepsouth* "gap," Congress did not make the foreign combination itself an act of patent infringement. Instead, it carefully circumscribed

---

[8] Indeed, even an express reference to "*foreign* commerce"—far more than the mere contemplation of foreign considerations—does not suffice to overcome the presumption. *RJR Nabisco*, 136 S. Ct. at 2110 (quoting *Morrison*, 561 U.S. at 262-263); see *Kiobel*, 569 U.S. at 118.

[9] Oddly, petitioner took the contrary position at the certiorari stage. See, *e.g.*, Pet. 18-19 (arguing that "Congress was absolutely clear [in Section 271(f)] about its intent to reach extraterritorial acts of combination and uses").

Section 271(f)(2) to domestic conduct, proceeding (in petitioner's own words) in a manner "more respectful of foreign sovereigns." Br. 37. Congress's enactment of Section 271(f)(2) cannot possibly give extraterritorial effect to Section 284, which provides for "damages adequate to compensate *for the infringement*": *i.e.*, for the domestic act of infringement made actionable under the relevant subsection of Section 271.

iii. Although petitioner attempts to frame its argument in terms of the presumption against extraterritoriality, its core submission is that failing to provide for foreign lost-profits damages would somehow "frustrate Congress' intent" in enacting Section 271(f)(2). Br. 54; see Br. 39.

That is incorrect. Under a proper interpretation of Section 284, damages, including reasonable royalties and lost profits for *domestic* lost sales, remain available for an act of infringement under Section 271(f)(2). Notably, reasonable royalties are the default form of damages under Section 284, and they are the most common remedy. See 35 U.S.C. 284 (specifying that the "adequate" compensation should not be less than a "reasonable royalty" for the infringing use); PricewaterhouseCoopers, *2017 Patent Litigation Study: Change on the Horizon?*, at 11 (May 2017) <tinyurl.com/pwcpatentstudy2017> (noting that over 60% of patentees obtained awards of reasonable royalties without lost profits).

In this case, petitioner did not seek lost-profits damages for domestic sales of its own steering devices; in fact, there were no such sales. But it received nearly $22 million for the loss of the reasonable royalties petitioner would have obtained on respondent's sales of DigiFINs, which the jury found had been supplied from the United States in violation of Section 271(f)(2). See Pet. App. 168a, 175a.

That award, unlike the lost-profits award based on foreign surveys, constituted a permissible domestic application of Section 284: a royalty for a physical article compensates a patentee for the injury of forgoing a licensing fee it was entitled to receive on that article. Petitioner suffered that injury at the moment respondent supplied DigiFINs from the United States. That injury is domestic, and the corresponding award of a reasonable royalty compensating for that injury is likewise domestic. Cf. *Carnegie Mellon University* v. *Marvell Technology Group, Ltd.*, 807 F.3d 1283, 1306-1307 (Fed. Cir. 2015) (explaining that royalties in an action under Section 271(a) are domestic when they are awarded for articles manufactured, sold, or used in the United States).[10]

In addition, a patentee that proves infringement under Section 271(f)(2) can obtain injunctive relief, the primary remedy at issue in *Deepsouth*. In this case, petitioner obtained injunctive relief in addition to damages. See Pet. App. 139a. Petitioner is thus entirely incorrect when it contends that giving Section 284 extraterritorial application is necessary to ensure "a remedy" for violations of Section 271(f)(2). Br. 19.

There is no indication in the text or history of Section 271(f)(2) that Congress wanted, much less clearly and unmistakably provided for, a broader remedy. To the contrary, Congress chose not to address remedies anywhere in Section 271(f), nor did it amend Section 284 when it added Section 271(f) in 1984. Given Congress's silence and the "expanded extraterritorial thrust" of petitioner's

---

[10] In calculating a reasonable royalty, moreover, a factfinder may consider the expected foreign use of an object in determining the reasonable royalty *rate* that would have emerged from the hypothetical negotiation, even though the factfinder cannot properly use a physical article manufactured, sold, and used abroad in the royalty *base*. See *Carnegie Mellon*, 807 F.3d at 1304-1305, 1307-1308.

position, the Court should "leave in Congress' court the patent-protective determination" that petitioner seeks. *Microsoft*, 550 U.S. at 458.

iv. If anything, Congress sought to *retain* the traditionally territorial scope of the patent laws when it enacted Section 271(f). In that subsection, Congress intended "simply [to] amend[] the patent law" so that the supply of components from the United States to circumvent a patent for an invention "will be treated *the same* as when the invention is 'made' or 'sold' in the United States." S. Rep. No. 663, 98th Cong., 2d Sess. 3 (1984) (emphasis added); see U.S. Br. 14 n.1. And precisely because the Patent Act is territorial, "the use of [a patentee's invention] outside of the jurisdiction of the United States is not an infringement of his rights, and he has no claim to any compensation for the profit or advantage the party may derive from it." *Brown*, 60 U.S. (19 How.) at 195-196. Accordingly, to obtain compensation for a foreign use, a party is required to enforce its patent rights in the jurisdiction of use—not in the United States.

It bears emphasizing that the injury for which petitioner seeks compensation here is foreign by happenstance, rather than as an inevitable result of the act of domestic infringement. Petitioner carried out its relevant business—the provision of marine surveys—outside the United States, rather than competing with respondent as a manufacturer of components sold from the United States. It is that critical feature of petitioner's business model, rather than the fact that DigiFINs were shipped abroad in violation of Section 271(f)(2), that bars petitioner's recovery for lost-profits damages.

If petitioner believes that the foreign uses of respondent's DigiFINs infringe its patents, it can pursue remedies in the jurisdictions in which the uses occurred pursuant to patents issued in those jurisdictions. See *Microsoft*,

550 U.S. at 456.[11] Notably, petitioner did not dispute below that it could recover in various other jurisdictions for the use of the DigiFINs in the foreign surveys. See Pet. App. 47a-48a. Petitioner apparently has not done so, and there is no valid justification for permitting petitioner to use a domestic act of infringement as a basis for recovering damages for its foreign injury.

b. Section 284 Is Subject To The Presumption Against Extraterritoriality

Petitioner also contends (Br. 39-52) that the presumption against extraterritoriality is inapplicable to Section 284. That argument (which the government conspicuously does not endorse) is irreconcilable with this Court's decision in *RJR Nabisco*.

i. Petitioner first proposes a "single pass" rule for extraterritoriality, under which Congress, "[h]aving made its intent to reach certain foreign conduct clear elsewhere in the statute," "need not specify in the corresponding damages provision that harm caused by that extraterritorial conduct is recoverable." Br. 40.

As a preliminary matter, even if that were the correct rule, it would not apply here. As petitioner repeatedly concedes, Congress reached only domestic, not foreign, conduct in Section 271(f)(2). See pp. 27-28, *supra*. Even if petitioner's rule were correct, therefore, it would not give Section 284 extraterritorial application.

In any event, petitioner's "single pass" rule is flatly inconsistent with *RJR Nabisco*. As noted above, in that case, the Court concluded that some of RICO's substantive prohibitions do reach extraterritorial conduct. See p.

---

[11] Petitioner holds a broad portfolio of foreign patents and has agreements with related entities to facilitate enforcement of its rights worldwide. See, *e.g.*, D. Ct. Dkt. 606, at 15 (Nov. 16, 2012).

18, *supra*. But it proceeded "separately [to] apply the presumption against extraterritoriality to RICO's cause of action," and it concluded that, "[i]rrespective of any extraterritorial application of [RICO's substantive provisions]," RICO's private right of action "does not allow recovery for foreign injuries." 136 S. Ct. at 2106, 2111.[12]

Petitioner makes a halfhearted effort to distinguish *RJR Nabisco*, contending that it addressed the question of "which plaintiffs can sue" to obtain a remedy, rather than the question here of what the remedy should be. Br. 32-33. But in *RJR Nabisco*, the Court rejected any effort to draw that very distinction between different types of provisions, making clear that the presumption "separately" applies "regardless of whether the statute in question regulates conduct, affords relief, or merely confers jurisdiction." 136 S. Ct. at 2101, 2106.

Petitioner objects that the rule of *RJR Nabisco* would lead to anomalous results in other statutes that "directly and expressly prohibit certain extraterritorial conduct" but are complemented by a "general damages provision." Br. 40 & n.10. Those examples are readily distinguishable here, because Section 271(f)(2) concededly regulates only domestic conduct.

Nor do those examples provide any basis for revisiting the rule of *RJR Nabisco* as to generally applicable damages provisions. For example, petitioner cites 29 U.S.C. 626(c) as a "damages" provision in the Age Discrimination

---

[12] The outcome here would be the same even under the approach of the dissenting Justices in *RJR Nabisco*. Writing for those Justices, Justice Ginsburg would have reached a different result as to RICO's private right of action on the ground that it "expressly incorporate[d]" the conduct-governing provision that was extraterritorial as to certain applications. 136 S. Ct. at 2113. Here, by contrast, the provision defining the act of infringement is undisputedly domestic, and Section 284 does not incorporate that provision.

in Employment Act (ADEA). But that provision, which permits any "person aggrieved" by an ADEA violation to sue "for such legal or equitable relief as will effectuate the purposes of this chapter," 29 U.S.C. 626(c)(1), creates a right of action and is thus plainly subject to the presumption against extraterritoriality under *RJR Nabisco*. See 136 S. Ct. at 2101. As a result, whether the ADEA allows recovery in the event of an extraterritorial application will depend on whether that provision supplies the requisite clear and unmistakable indication of extraterritorial effect. So too here, the relevant question is whether Section 284 overcomes the presumption—a question petitioner studiously avoids.

ii. Even more ambitiously, petitioner contends (Br. 28-34) that the presumption against extraterritoriality does not apply at all—whether to Section 271 or Section 284—because the presumption primarily concerns itself with foreign conduct and respondent's patent-infringing conduct was domestic (even if the lost profits were foreign). But that contention, too, cannot be reconciled with the Court's pronouncement that the presumption applies to all provisions, including those that "afford[] relief." *RJR Nabisco*, 136 S. Ct. at 2101. In fact, the Court has twice rejected the contention that the presumption "is primarily concerned with the question of what *conduct* falls within a statute's purview," despite the fact that Congress clearly intended to reach the conduct at issue in each case. *Id.* at 2106 (citation omitted); see *Kiobel*, 569 U.S. at 116.

At bottom, petitioner makes strikingly little effort to fit its arguments into the framework established by this Court's extraterritoriality precedents. Petitioner's arguments are foreclosed and should be rejected.

2. *The Government's Argument Lacks Merit Because The Lost-Profits Award Constitutes An Extraterritorial Application Of Section 284*

For its part, the government appears to agree with respondent, and to disagree with petitioner, that the presumption against extraterritoriality applies to Section 284. The government also seemingly does not believe that the presumption can be overcome on the ground that Section 271(f)(2) somehow "implicates" foreign conduct. See, *e.g.*, U.S. Br. 25. The government's position is unsurprising given its position in the other case this Term involving the presumption against extraterritoriality, *United States* v. *Microsoft Corp.*, cert. granted, No. 17-2 (argued Feb. 27, 2018). There, the government took the position that "the extraterritoriality analysis 'must be applied separately'" to each of an enactment's "various * * * provisions." U.S. Br. at 18, *Microsoft*, *supra* (quoting *RJR Nabisco*, 136 S. Ct. at 2108).

The government instead advances an entirely distinct argument that cannot be reconciled with petitioner's: namely, that the lost-profits award at issue here constitutes a permissible domestic application of Section 284. See U.S. Br. 25. That argument reflects at least some effort to come to grips with the framework established by this Court's extraterritoriality precedents, but it is ultimately unavailing.

a. The government recognizes, as it must, that the damages petitioner seeks are based on "foreign conduct." U.S. Br. 25. But it suggests that the damages must be available because a contrary rule would bar courts from considering foreign conduct even as an evidentiary matter: for example, from considering foreign publications as disqualifying prior art. See *id.* at 9, 22, 26-27. That does not follow. It is uncontroversial that evidence of foreign

events can still be considered as part of the domestic application of a statute. For example, at trial in this case, petitioner demonstrated the foreign uses to which purchasers put DigiFINs as a way of establishing respondent's intent. See, *e.g.*, C.A. App. 4025, 6196. As discussed above, a factfinder may similarly consider the expected foreign use of an object in determining the reasonable royalty rate to which the parties would have agreed in a hypothetical negotiation. See p. 29 n.10, *supra*.

Here, by contrast, foreign activity did not merely shed light on the existence of liability or a domestic injury; the damages were compensation *for* the foreign activity. Petitioner's lost-profits injury did not arise simply from the supply of DigiFINs from the United States; after all, under Section 271(f)(2), respondent would be liable for infringing petitioner's patents even if the foreign combinations, never mind the subsequent foreign uses, did not take place. See pp. 5-6, *supra*.

Instead, petitioner's injury was the loss of a foreign stream of income that necessarily depended on the subsequent foreign conduct of foreign parties. In that way, the foreign injury was the "direct measure of damages," with compensation, dollar for dollar, for the foreign conduct. *Carnegie Mellon*, 807 F.3d at 1307 (citation omitted). Under *RJR Nabisco*, however, recovery for "damages claims" that "rest entirely on injury suffered abroad" is not permitted under a statute that does not extend extraterritorially. 136 S. Ct. at 2111.

b. The government attempts to distinguish *RJR Nabisco* on the ground that the Patent Act's substantive provisions "regulate conduct only inside the United States," whereas RICO's substantive provisions have some extraterritorial application. U.S. Br. 29. But that purported distinction only bolsters respondent's position: the fact that Congress intended the Patent Act to have

purely domestic effect is all the more reason to be skeptical of damages awards based on foreign injury.

In any event, the government's distinction fails on the facts. In *RJR Nabisco*, the conduct alleged to violate RICO included "predicate offenses that were * * * committed in the United States" *and* those "committed in a foreign country in violation of a predicate statute that applies extraterritorially." 136 S. Ct. at 2105. The government acknowledges that fact in a footnote, conceding that *RJR Nabisco* "appears to bar any private suit alleging that a RICO predicate offense committed within the United States has caused injury abroad." U.S. Br. 29 n.4.

Moreover, nothing in the Court's analysis in *RJR Nabisco* turned on the possibility that the private right of action could be applied to cases involving foreign violations. To the contrary, the Court drew a clear distinction between the conduct relevant to RICO's substantive provisions and the conduct relevant to its remedial provision, and it concluded that RICO's private right of action did not extend to foreign injuries for foreign and domestic violations alike. See 136 S. Ct. at 2106-2107.[13]

c. The government also attempts to establish that the application of Section 284 here is domestic by proposing a sort of blue-pencil rule for assessing extraterritorial application. See U.S. Br. 30-32. Under the government's proposed rule, when a court applies the presumption to a statute, it effects only a "modest emendation" of the statute by inserting the four words "in the United States." *Id.*

---

[13] The government fares no better in its effort to distinguish *RJR Nabisco* on the ground that RICO's underlying offenses were enacted to protect public, rather than private, rights. See U.S. Br. 32-33. The relevant provision in *RJR Nabisco* was a private right of action, which allowed an individual plaintiff to remedy a private injury in a civil suit. See 136 S. Ct. at 2106. Section 284 similarly provides a private remedy for an individual plaintiff.

at 32. If those words cannot meaningfully be inserted into the statute to limit a particular application, the application in question must be considered domestic. See *ibid.*

That bizarre approach would subject Congress to a procrustean grammatical requirement and greatly limit the effect of the presumption against extraterritoriality. Under the government's proposed rule, an application of a statute would be domestic whenever the statute is worded in such a way that it is not amenable to the government's emendation, even if the application is (as here) self-evidently extraterritorial on its facts. That approach has no footing in this Court's cases applying the presumption against extraterritoriality. And to state the obvious, Congress did not draft Section 284 (or other statutes, for that matter) with the government's arbitrary rule in mind.

In light of the presumption against extraterritoriality, Section 284, which directs a court to "award the claimant damages adequate to compensate for the infringement," should simply be read to "award the claimant *domestic* damages adequate to compensate for the infringement"—just as the RICO remedial provision at issue in *RJR Nabisco*, which provided a right of action for "[a]ny person injured in his business or property by reason of a violation" of those prohibitions, was read to confer a right of action only on a person who suffered a *domestic* injury to his business or property. See 136 S. Ct. at 2111. The Court should reject the government's effort artificially to limit the scope of the presumption—an effort that, yet again, cannot be reconciled with the Court's extraterritoriality precedents.

3. Petitioner's And The Government's Remaining Arguments Are Unavailing

Petitioner's remaining hodgepodge of arguments (many of which the government echoes) do not support its

interpretation of the Patent Act, under which lost-profits damages would be available for a third party's subsequent foreign use of an infringing product.

a. Both petitioner and the government cite a parade of horribles that will purportedly follow if the Court does not permit the recovery of extraterritorial damages in this case. See Pet. Br. 41; U.S. Br. 13. They are mistaken.

The government first suggests that recovery of extraterritorial damages is necessary for a "foreign tourist negligently injured in a car crash in the United States [to] receive full compensation from the tortfeasor, including for lost wages the tourist would have earned in his home country." U.S. Br. 13. It is open to question, however, whether the presumption applies to common-law causes of action. See Jeffrey A. Meyer, *Extraterritorial Common Law: Does the Common Law Apply Abroad?*, 102 Geo. L.J. 301, 334 (2014).

In petitioner's variation on that hypothetical, a federal worker injures a foreign tourist, allowing the tourist to assert a claim under the Federal Tort Claims Act (FTCA). See Br. 41. But the FTCA does not create a new body of substantive law or even provide a right of action, so the tourist's claims would still be governed by the common law of the relevant State as to liability and damages. See *FDIC* v. *Meyer*, 510 U.S. 471, 478 (1994); *Feres* v. *United States*, 340 U.S. 135, 141 (1950). Accordingly, it is far from clear that the presumption against extraterritoriality would apply in that case either.

In either hypothetical, moreover, the relevant harm to the injured tourist—the loss of the capacity to work—is complete as soon as the physical injury occurs in the United States; the domestic conduct brings about the relevant injury by itself. Of course, evidence about the tourist's expected earnings abroad may shed light on the amount of wages the tourist lost. But that is a far cry from

the award here, which compensates petitioner for an injury that did not occur at the time of the domestic conduct, but rather occurred abroad only after the subsequent conduct of third parties outside the United States (which was a necessary predicate to the injury).

Petitioner also suggests (Br. 41) that respondent's approach would prevent a foreign company from recovering for its lost sales if an American wholesaler breaches a contract to ship components to the foreign company from the United States. But again, it is unclear whether the presumption against extraterritoriality applies to a contract question governed by the common law. And again, in that hypothetical, it is the domestic conduct that brings about the harm; the lost sales are inevitable (absent any ability to mitigate damages) because, once the domestic company fails to ship the required components, the foreign company cannot create the product it seeks to sell. No additional conduct outside the United States is necessary for injury to the foreign company to result.

b. Petitioner also asserts that two century-old patent cases—*Manufacturing Co.* v. *Cowing*, 105 U.S. 253 (1882), and *Dowagiac Manufacturing Co.* v. *Minnesota Moline Plow Co.*, 235 U.S. 641 (1915)—all but decide the question presented, establishing that "damages provisions do not implicate the presumption against extraterritoriality at all." Br. 41; cf. U.S. Br. 16 (noting that those cases do not "squarely resolve[]" the question presented here). Petitioner is incorrect.

In *Cowing*, the defendants manufactured oil-well pumps that employed an improved design covered by the plaintiff's patent. The only question before the Court was whether the plaintiff was limited to the recovery of nominal damages because it had failed to prove which portion of the pumps' value stemmed from the patented improve-

ment. The Court held that the damages were not so limited. See 105 U.S. at 255-256. According to the Court, the pumps were adapted for a particular use. See *ibid.* That use was limited because there was "no market for pumps adapted to [it], except in the oil-producing regions of Pennsylvania and Canada." *Ibid.* Within that niche, however, the pumps were "useless" without the improvement. See *id.* at 256. The Court thus awarded the defendants' entire profits as damages, without apportioning the value added by the improvement from the value of an unimproved pump. See *id.* at 257-258.

Petitioner reads the Court's opinion to be premised on a determination that damages were warranted based on "sales in Canada." Br. 42. But the Court made no mention of extraterritorial damages, let alone explained why such damages would be permissible. That is hardly surprising, for the parties did not brief the issue. Although it appears that the defendants sold a handful of pumps to Canadian customers, "[t]he number of pumps for which the defendants [we]re liable to account was fixed by agreement at 298." Appellant Br. at 4, *Cowing*, *supra* (1881 Term, No. 151). The Court thus had no occasion to consider, much less decide, whether sales to Canadian purchasers should be excluded. Cf. *RJR Nabisco*, 136 S. Ct. at 2109 n.10 (rejecting reliance on *Sedima, S.P.R.L.* v. *Imrex Co.*, 473 U.S. 479 (1985), on similar grounds).

It is also far from clear that the damages for the pumps sold to Canadian customers could properly be characterized as foreign. Unlike here, the plaintiff in *Cowing* did not claim as damages the profits on *services* it could have earned in Canada if the Canadian customers had not used the pumps to compete with the plaintiff in Canada. Instead, the plaintiff sought damages based on the sales of the infringing American manufacturers, through an agent, to customers in Canada. There is no

reason to think that those sales, straddling both countries, had their situs outside the United States. See *W.S. Tyler Co.* v. *Ludlow-Saylor Wire Co.*, 236 U.S. 723, 725 (1915).

Petitioner's reliance on *Dowagiac* is equally unavailing. In that case, the Court again considered whether a plaintiff's recovery should be limited to nominal damages. See 235 U.S. at 643. The plaintiff held patents to certain features of grain drills, and the defendants bought infringing drills from manufacturers and sold them to customers. The plaintiff argued it lost money because the defendants' customers would have bought drills from the plaintiff absent the infringement. See *id.* at 643, 648.

The Court held in *Dowagiac* that damages could not be awarded for drills sold by the defendants in Canada because "no part of the transaction occurr[ed] within the United States." 235 U.S. at 650. In reaching that holding—which, if anything, confirms that damages for purely foreign transactions are not available—the Court distinguished *Cowing*. The Court stated that, in *Cowing*, the defendant sellers made the infringing articles in the United States, so recovery was not for "acts wholly done in a foreign country." *Ibid.* The Court thus drew a distinction based on the situs of the transaction at issue: where the transaction was foreign, damages based on that transaction could not be recovered. So too here, damages for the foreign transactions at issue are improper.[14]

c. Petitioner further contends that "lower-court decisions before and after [*Cowing*] have awarded damages for foreign harm caused by unlawful domestic [patent infringement]." Br. 43; see U.S. Br. 18-20. But it appears that none of those cases involved damages for the kind of

---

[14] In any event, the fact that *Dowagiac* chose to distinguish *Cowing* on one readily available ground hardly amounts to an "acknowledg[ment]" that the damages would otherwise be available. See Pet. Br. 42.

downstream foreign activity at issue here. In several of the cases, the court upheld an award of royalties where the defendant manufactured or sold an infringing product in the United States. See *Ketchum Harvester Co.* v. *Johnson Harvester Co.*, 8 F. 586, 586 (C.C.N.D.N.Y. 1881) (Blatchford, C.J.); *Railroad Dynamics, Inc.* v. *A. Stucki Co.*, 727 F.2d 1506, 1519-1520 (Fed. Cir.), cert. denied, 469 U.S. 871 (1984); *Datascope Corp.* v. *SMEC, Inc.*, 879 F.2d 820, 827 (Fed. Cir. 1989). Those damages are domestic. See p. 29, *supra*.

In the remaining cases, the plaintiffs appear to have recovered profits for sales made from the United States to foreign customers. See, *e.g.*, *K.W. Ignition Co.* v. *Temco Electric Motor Co.*, 283 F. 873, 873, 874-875 (6th Cir. 1922), cert. denied, 260 U.S. 746 (1923); *Schneider (Europe) AG* v. *SciMed Life Systems, Inc.*, 60 F.3d 839, 1995 WL 375949, at *3 (Fed. Cir.) (unpublished table decision), cert. denied, 516 U.S. 990 (1995). Even those transactions, which have one leg in the United States, may well be properly understood to be domestic. See *W.S. Tyler*, 236 U.S. at 725; *Carnegie Mellon*, 807 F.3d at 1308. Regardless, the damages from those transactions are entirely distinct from the damages petitioner seeks here—profits it would have earned for foreign activities were it not for the conduct of third-party foreign entities that took place entirely abroad, rather than profits from the sales of competing components made from the United States.[15]

---

[15] Petitioner contends that, outside the intellectual-property context, "courts routinely award damages quantified by reference to foreign evidence or activities, without any suggestion that the presumption against extraterritoriality has any bearing on the damages available." Br. 45-46 n.11. But none of the cases it cites involved lost profits that arose from the conduct of downstream foreign actors outside

The government cites additional cases showing that "[c]ourts have also enjoined the sale abroad of infringing articles manufactured in the United States." Br. 19. That is unremarkable. If a party has infringed a patent inside the United States and is subject to the jurisdiction of an American court, the court plainly has the power to enjoin that party from taking further action with respect to the infringing items. See *Parks* v. *Booth*, 102 U.S. 96, 97 (1880). An injunction does not provide a remedy for an injury from a downstream activity; it simply stops the defendant from committing or exploiting violations of the Patent Act in the United States.

In this case, the district court entered an injunction against respondent, and its power to do so is undisputed. By contrast, the government cites no cases in which a court enjoined an infringer's foreign customer from using a product already in its possession. A court would surely lack the authority to enjoin such foreign conduct. Yet the damages petitioner claims here are intended to compensate for that very conduct.

d. Finally, petitioner (joined by the government) seeks support for its expansive theory of extraterritorial damages in the so-called "predicate act" doctrine, adopted by some lower courts in the context of copyright law. See Pet. Br. 49-52; U.S. Br. 20-21. As an initial matter, this Court has never recognized the predicate-act doctrine. More fundamentally, that doctrine—which involves a disgorgement remedy that is unavailable under patent law—is entirely consistent with the principle of territoriality.

---

the United States. See, *e.g.*, *Multiflex, Inc.* v. *Samuel Moore & Co.*, 709 F.2d 980, 997 (5th Cir. 1983), cert. denied, 465 U.S. 1100 (1984); *Piaggio & C.* v. *Cushman Motor Works, Inc.*, 416 F.2d 683, 686 (7th Cir. 1969); *Edwards Manufacturing Co.* v. *Bradford Co.*, 294 F. 176, 177-178, 182-184 (2d Cir. 1923).

The predicate-act doctrine originated with the Second Circuit's decision in *Sheldon* v. *Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (1939), aff'd, 309 U.S. 390 (1940). In that case, the defendants copied a movie in violation of the owner's copyright and shipped the copies to foreign countries. See *id.* at 52. The court of appeals permitted the plaintiffs to recover the defendants' profits made from showing the movie abroad. See *ibid.* The court recognized that, under normal principles, "it would indeed seem" that "profits made from exhibiting the infringing picture outside the United States * * * should be excluded." *Ibid.* But the court explained that the remedy at issue, disgorgement of the infringer's profits, actually had its "situs * * * in the United States." *Ibid.*

An infringer's profits are an equitable remedy that divests the defendant of the gains from its wrongdoing. See, *e.g.*, *Birdsall* v. *Coolidge*, 93 U.S. 64, 68-69 (1876). In *Sheldon*, the court explained that the defendant's infringement in the United States created a constructive trust in the infringing copy "as soon as [it was] made." 106 F.2d at 52. And the *Sheldon* court cited this Court's decisions in *Cowing* and *Dowagiac*, which together illustrate that very distinction: recovery turns on whether a transaction is properly characterized as domestic or foreign. *Ibid.*; see pp. 39-41, *supra*.

Accordingly, *Sheldon* does not support the proposition that compensatory damages are available for foreign injures. Instead, it stands only for the proposition that an *infringer's* profits have the requisite situs in the United States when they stem from infringement in the United States. That principle does not help petitioner, because petitioner seeks damages to compensate for its own lost profits, rather than the equitable disgorgement of respondent's (far smaller) profits. Unlike the Copyright

Act, the Patent Act no longer permits recovery of an infringer's profits. See 35 U.S.C. 284; *General Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 654 (1983).[16]

As the Ninth Circuit explained in a recent opinion, the "*Sheldon* exception" relies on a "territorial connection" to an infringer's profits, and so comports with "Congress's decision to keep the copyright laws—presumably including [17 U.S.C. 504], which prescribes remedies—territorially confined." *Los Angeles News Service* v. *Reuters Television International Ltd.*, 340 F.3d 926, 931-932 (2003), cert. denied, 541 U.S. 1041 (2004). Not one of the predicate-act cases petitioner cites explains why it should apply to a foreign damages award; that is unsurprising, because the award at issue in each case was calculated by reference to the infringer's profits. See, *e.g.*, *Tire Engineering & Distribution, LLC* v. *Shandong Linglong Rubber Co.*, 682 F.3d 292, 300 (4th Cir. 2012), cert. denied, 568 U.S. 1087 (2013); *Update Art, Inc.* v. *Modiin Publishing, Ltd.*, 843 F.2d 67, 70 & n.4 (2d Cir. 1988).

By contrast, as the Ninth Circuit explained in *Los Angeles News Service*, the predicate-act doctrine does not justify the recovery of compensatory damages where the losses are foreign in nature. See 340 F.3d at 932. In that case, the court rejected the plaintiff's contrary argument based on purported "traditional tort principles," explaining that such principles did not support recovery "beyond

---

[16] For the same reason, the government's reliance on dicta from *Brown*, *supra*, is misplaced. See U.S. Br. 16-17. *Brown* was decided when an infringer's profits were available in patent cases, and the Court stated that the patentee could recover for the use of a patented sail assembled in an American port but used in international waters because the infringer "would undoubtedly have trespassed upon the rights of the plaintiff, and would have been justly answerable for *the profit and advantage he thereby obtained*." 60 U.S. (19 How.) at 196 (emphasis added). That reasoning is inapposite to the damages award at issue here.

the boundaries where Congress declared that liability stops." *Id.* at 931. The court warned that it made no sense to hold "an infringer whose domestic act of infringement * * * leads to widespread extraterritorial infringement, liable for the copyright owner's entire loss of value or profit from that overseas infringement, particularly if the overseas infringement is legal where it takes place." *Ibid.* And the court explained that policy arguments for permitting such recovery were merely "complaint[s] about the failure of Congress to make the copyright laws—those creating both rights and remedies—applicable extraterritorially." *Ibid.* That conclusion applies *a fortiori* in the patent context, where the territoriality principle is at its peak. See p. 16, *supra*.

C. Petitioner's Interpretation Of The Patent Act Would Give Rise To Significant Comity Concerns

Petitioner's interpretation of the Patent Act would yield intolerable results. It would permit recovery of worldwide patent damages with little connection to the United States, flouting the comity considerations that underlie the presumption against extraterritoriality. As this Court has explained, the presumption applies "regardless of whether there is a risk of conflict between the American statute and a foreign law." *Morrison*, 561 U.S. at 255. But where, as here, "such a risk is evident, the need to enforce the presumption is at its apex." *RJR Nabisco*, 136 S. Ct. at 2107.

1. At the certiorari stage, petitioner framed the question presented in terms of Section 271(f) and limited its arguments to that subsection. See Pet. 19. Freed of any inhibition, however, petitioner now joins the government in arguing that a patentee can recover wholly extraterritorial damages for *any* form of patent infringement defined in Section 271. See, *e.g.*, Pet. Br. 38, 41; U.S. Br. 14,

21-22. Petitioner seemingly takes the position that patent damages are available for harm suffered anywhere in the world, even if (as here) the relevant injury occurred abroad and had as a necessary predicate the foreign conduct of a third party, as long as the patentee can convince a jury that the harm was the "foreseeable" result of patent infringement in the United States. See Br. 41.

That rule would unquestionably create international tension. "[E]ven where nations agree about [how to regulate] primary conduct," they "disagree dramatically about appropriate remedies." *F. Hoffmann-La Roche*, 542 U.S. at 167. Damages awards in American courts often dwarf awards in foreign courts for similar injuries. See Gary B. Born & Peter B. Rutledge, *International Civil Litigation in United States Courts* 4 (3d ed. 1996). That is especially true in patent litigation, not least because "[n]o other country allows lay juries to decide patent cases." *Improving Federal Court Adjudication of Patent Cases: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 109th Cong. 9 (2005) (statement of Kimberly A. Moore). Accordingly, patentees have a strong incentive to seek remedies in the United States. Comity concerns arise, however, when parties acting in foreign countries bypass those countries' "less generous remedial schemes, thereby upsetting a balance of competing considerations that their own domestic * * * laws embody." *RJR Nabisco*, 136 S. Ct. at 2106-2107 (citation omitted).

Petitioner's interpretation would permit the recovery of foreign profits based not on the act of supplying an infringing item from the United States itself, but rather on a third party's use of the combined product abroad, whenever that use could be traced back to some act of infringe-

ment in the United States in the development of the product. Plaintiffs could recover, seemingly in perpetuity, for multiple foreign uses of the same component by third parties; in fact, petitioner here recovered for two back-to-back surveys by a single entity using the same foreign-flagged vessel. See J.A. 82.

As a result, a plaintiff could use a domestic act of infringement (however minor) as a "springboard" for regulating foreign conduct, violating the maxim that "[f]oreign conduct" is generally "the domain of foreign law." *Microsoft*, 550 U.S. at 455-456 (quoting U.S. Br. at 28, *Microsoft*, *supra*). Ironically, in *Microsoft*, the government recognized precisely that concern, warning that allowing a domestic act to trigger liability for downstream acts would effectively "[i]mpos[e] liability for conduct that occurs in foreign countries and is directed toward foreign markets" and thus "implicate[] the comity concerns underlying the presumption against extraterritoriality." U.S. Br. at 29, *Microsoft*, *supra*.

It is not hard to see why petitioner's interpretation would raise comity concerns. Consider, for instance, a situation in which a Korean company that designs its products in the United States makes a prototype that infringes an American patent. Petitioner would allow the patentee to recover lost profits related to worldwide sales of the product resulting from the prototype—even for products manufactured, sold, and used in Korea. As a result, American law would compel the Korean company to alter its conduct in Korea. That would remain true even if Korea had refused to award a patent for the invention, had chosen to provide a more modest recovery to the patentee, or otherwise crafted its patent law to encourage the Korean conduct at issue.

If other countries adopted a similar approach to petitioner's, moreover, the potential for interference with

American interests would be manifest. Suppose, for instance, that Japan issues a patent for an abstract concept that is not patentable under American law. See *Alice Corp.* v. *CLS Bank International*, 134 S. Ct. 2347, 2358-2360 (2014). If Japan adopted petitioner's approach, the Japanese patentee could recover all of the profits from an American company that designed software employing the abstract concept in Japan but made and sold the software in the United States. That in turn would affect the company's conduct in the United States in a way that American law has chosen not to regulate.

These hypotheticals are not far-fetched: similar actual cases have driven the Federal Circuit's law on the availability of extraterritorial patent damages. For example, petitioner's interpretation would reinstate the damages award the Federal Circuit reversed in *Carnegie Mellon*, *supra*. There, the defendant developed the design for a computer chip in the United States, and that design infringed the plaintiff's patent. See 807 F.3d at 1291. Many of the defendant's chips were manufactured, sold, and used outside the United States. The jury awarded an astounding $1.17 billion as a reasonable royalty based on worldwide sales, including for wholly foreign chips, simply because those foreign activities could be linked back to the infringement in the United States. See *id.* at 1291-1292, 1305-1306. The Federal Circuit vacated the portion of the award that rested on chips manufactured, sold, and used abroad as an impermissible extraterritorial application of the Patent Act. See *id.* at 1305-1308.

Under petitioner's regime, therefore, any domestic act of infringement would justify giving a patentee a cut (in the royalty context) or a dollar-for-dollar recovery (in the lost-profits context) of the gains of entirely foreign activities by downstream parties. Creating a prototype of any

product in the United States would give rise to uncontrollable liability for downstream activities by unrelated foreign actors that occur entirely abroad. If this Court adopts petitioner's proposed rule, the many American companies that design and test products in the United States would be well advised to relocate their design operations offshore to avoid creating a springboard for worldwide damages awarded by American juries.

The United States has already agreed not to allow its intellectual-property law to override policy decisions by other countries. By entering the International Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the United States recognized the need for nations to provide "effective and appropriate means for the enforcement of trade-related intellectual property rights, *taking into account differences in national legal systems*." Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, preamble, Apr. 15, 1994, 1869 U.N.T.S. 299, 300 (emphasis added). Petitioner's approach would allow American courts to trump those differences.

2. a. Petitioner attempts to cabin the implications of its interpretation by arguing that principles of proximate causation will provide sufficient limits on extraterritorial patent damages. See, *e.g.*, Br. 52. But, as with petitioner's other arguments, this Court has already rejected that very reasoning. In *RJR Nabisco*, the court of appeals had held that, "[i]f an injury abroad was proximately caused by the violation of a statute which Congress intended should apply to injurious conduct performed abroad, [there is] no reason to import a domestic injury requirement." 764 F.3d 149, 151 (2d Cir. 2014). This Court reversed that holding, cautioning that it "fails to appreciate that the presumption against extraterritoriality must be

applied separately" to remedial provisions even where proximate causation is satisfied. 136 S. Ct. at 2108.

Nor is proximate causation an effective mechanism for addressing the problems inherent in petitioner's approach. Causation, after all, is normally a question for the jury. See *Milwaukee & St. Paul Railway Co.* v. *Kellogg*, 94 U.S. 469, 474 (1876). The Federal Circuit has held that patent infringement proximately causes a patent holder's injury whenever the injury was "reasonably foreseeable" from the act of infringement, *Rite-Hite Corp.* v. *Kelley Co.*, 56 F.3d 1538, 1546 (Fed. Cir.), cert. denied, 516 U.S. 867 (1995), and, in the context of patent damages, courts have treated the question of foreseeability as one of fact, see, *e.g.*, *On-Line Technologies, Inc.* v. *Perkin-Elmer Corp.*, 428 F. Supp. 2d 76, 80 (D. Conn. 2006). "Foreseeability," however, "is an amorphous concept, subject to manipulation by the trier of fact." Mark Bartholomew & Patrick F. McArdle, *Causing Infringement*, 64 Vand. L. Rev. 675, 707 (2011). Using proximate causation as the only bulwark against extraterritorial damages would mean that a defendant's liability for worldwide patent damages would depend entirely on the whims of the jury.

What is more, there is no reason to think that juries are equipped to take into account comity considerations in deciding questions of causation (even if that were appropriate). A core motivation for the presumption against extraterritoriality is the recognition that *courts* are not equipped to consider the implications of giving statutes extraterritorial effect for international relations; that is why courts assume that Congress did not want to extend domestic law abroad absent a clear statement to the contrary. See *RJR Nabisco*, 136 S. Ct. at 2100; *Chicago & Southern Air Lines, Inc.* v. *Waterman S.S. Corp.*, 333 U.S. 103, 111 (1948). Juries are even less competent to make those sensitive determinations. And as *Carnegie*

Mellon and this case illustrate, juries have not hesitated to award enormous worldwide damages based on foreign conduct.

b. Petitioner also contends (Br. 54) that its approach is necessary to protect domestic companies from foreign competition. Not so. Domestic companies routinely protect their intellectual property by obtaining patent protection in foreign jurisdictions and invoking those jurisdictions' legal remedies when infringement occurs abroad.

For example, petitioner has sought patents related to the technology at issue here in many foreign countries. See, *e.g.*, NO 333980 B1 (Norway); EP 2209022 B1 (United Kingdom, Italy, Netherlands); EP 1119780 B1 (Germany, Denmark, France, Italy, Netherlands, Sweden); CN 1321250 A (China). Yet petitioner does not appear to have filed suit in any foreign jurisdiction against any of respondent's customers for infringing one of its foreign patents.[17] After all, why bother, if worldwide damages are available from an American court? And to the extent petitioner could not have filed suit abroad because a relevant country provided narrower protection, it simply proves the point: an American court should not interfere with the policy judgment of a foreign country by imposing damages for a foreign use where the relevant country does not.[18]

---

[17] Petitioner also does not appear to have made use of the arbitration and mediation options offered by the World Intellectual Property Organization. See WIPO Arbitration & Mediation Center, *Why Mediate/Arbitrate Intellectual Property Disputes?*, 42 les Nouvelles 301 (2007); Patent Cooperation Treaty, 28 U.S.T. 7645, T.I.A.S. No. 8733 (June 19, 1970).

[18] The marine surveys at issue here were conducted in international waters. But it is an "established tenet that a vessel on the high seas

3. Given the evident comity concerns and the vast change to patent law that petitioner's approach would inaugurate, this is a particularly compelling case for applying the presumption against extraterritoriality. Courts should not create a sweeping regime of worldwide patent damages without a clear indication that Congress intended it. While petitioner looks primarily to Section 271(f)(2) to justify its proposed regime, that provision cannot bear that weight. In enacting Section 271(f)(2), Congress carefully limited its reach to domestic conduct and left the remedial provisions of the Patent Act untouched.

Using a gap-filling provision to permit American courts to award worldwide patent damages would truly find an elephant in the proverbial mousehole. See *Whitman* v. *American Trucking Ass'ns*, 531 U.S. 457, 468 (2001). And while doing so would be problematic in the best of circumstances, it is simply unacceptable in the uniquely territorial context of the patent laws and on the facts presented here.

There is a simpler way. If petitioner believes that lost-profits damages should be available here for a third party's subsequent foreign use of an infringing product, its proper recourse is to Congress, not to this Court. Congress need only clearly and unmistakably indicate that it wishes to provide for extraterritorial damages, either for

---

is under the exclusive jurisdiction of the nation under whose flag she sails." *Martha's Vineyard Scuba Headquarters, Inc.* v. *Unidentified Vessel*, 833 F.2d 1059, 1066 (1st Cir. 1987) (internal quotation marks and citation omitted). In any event, the fortuity that the foreign use in this case occurred in international waters should not drive the Court's resolution of the question presented. See *RJR Nabisco*, 136 S. Ct. at 2107-2108; cf. *Smith*, 507 U.S. at 204-205 & n.5 (applying presumption against extraterritoriality in case involving conduct in Antarctica).

infringement under Section 271(f)(2) or for all types of infringement. But absent such a clear and unmistakable indication in the Patent Act that extraterritorial damages are available, the court of appeals correctly applied the presumption against extraterritoriality here. Its judgment should therefore be affirmed.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

DANIELLE J. HEALEY
BRIAN G. STRAND
BAILEY K. BENEDICT
FISH & RICHARDSON P.C.
1221 McKinney Street,
Suite 2800
Houston, TX 77010

JUSTIN M. BARNES
TROUTMAN SANDERS LLP
11682 El Camino Real,
Suite 400
San Diego, CA 92130

KANNON K. SHANMUGAM
DAVID I. BERL
AMY MASON SAHARIA
MASHA G. HANSFORD
WILLIAM T. MARKS
J. MATTHEW RICE
WILLIAMS & CONNOLLY LLP
725 Twelfth Street, N.W.
Washington, DC 20005
(202) 434-5000
kshanmugam@wc.com

MARCH 2018

APPENDIX

35 U.S.C. 271 provides:

(a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or

the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

(e)(1) It shall not be an act of infringement to make, use, offer to sell, or sell within the United States or import into the United States a patented invention (other than a new animal drug or veterinary biological product (as those terms are used in the Federal Food, Drug, and Cosmetic Act and the Act of March 4, 1913) which is primarily manufactured using recombinant DNA, recombinant RNA, hybridoma technology, or other processes involving site specific genetic manipulation techniques) solely for uses reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use, or sale of drugs or veterinary biological products.

(2) It shall be an act of infringement to submit—

(A) an application under section 505(j) of the Federal Food, Drug, and Cosmetic Act or described in section 505(b)(2) of such Act for a drug claimed in a patent or the use of which is claimed in a patent,

(B) an application under section 512 of such Act or under the Act of March 4, 1913 (21 U.S.C. 151-158) for a drug or veterinary biological product which is not primarily manufactured using recombinant DNA, recombinant RNA, hybridoma technology, or other processes involving site specific genetic manipulation techniques and which is claimed in a patent or the use of which is claimed in a patent, or

(C)(i) with respect to a patent that is identified in the list of patents described in section 351(l)(3) of the Public Health Service Act (including as provided under section 351(l)(7) of such Act), an application seeking approval of a biological product, or

(ii) if the applicant for the application fails to provide the application and information required under section 351(l)(2)(A) of such Act, an application seeking approval of a biological product for a patent that could be identified pursuant to section 351(l)(3)(A)(i) of such Act,

if the purpose of such submission is to obtain approval under such Act to engage in the commercial manufacture, use, or sale of a drug, veterinary biological product, or biological product claimed in a patent or the use of which is claimed in a patent before the expiration of such patent.

(3) In any action for patent infringement brought under this section, no injunctive or other relief may be granted which would prohibit the making, using, offering to sell, or selling within the United States or importing into the United States of a patented invention under paragraph (1).

(4) For an act of infringement described in paragraph (2)—

(A) the court shall order the effective date of any approval of the drug or veterinary biological product involved in the infringement to be a date which is not earlier than the date of the expiration of the patent which has been infringed,

(B) injunctive relief may be granted against an infringer to prevent the commercial manufacture, use, offer to sell, or sale within the United States or importation into

the United States of an approved drug, veterinary biological product, or biological product,

(C) damages or other monetary relief may be awarded against an infringer only if there has been commercial manufacture, use, offer to sell, or sale within the United States or importation into the United States of an approved drug, veterinary biological product, or biological product, and

(D) the court shall order a permanent injunction prohibiting any infringement of the patent by the biological product involved in the infringement until a date which is not earlier than the date of the expiration of the patent that has been infringed under paragraph (2)(C), provided the patent is the subject of a final court decision, as defined in section 351(k)(6) of the Public Health Service Act, in an action for infringement of the patent under section 351(l)(6) of such Act, and the biological product has not yet been approved because of section 351(k)(7) of such Act.

The remedies prescribed by subparagraphs (A), (B), (C), and (D) are the only remedies which may be granted by a court for an act of infringement described in paragraph (2), except that a court may award attorney fees under section 285.

(5) Where a person has filed an application described in paragraph (2) that includes a certification under subsection (b)(2)(A)(iv) or (j)(2)(A)(vii)(IV) of section 505 of the Federal Food, Drug, and Cosmetic Act (21 U.S.C. 355), and neither the owner of the patent that is the subject of the certification nor the holder of the approved application under subsection (b) of such section for the drug that is claimed by the patent or a use of which is claimed by the patent brought an action for infringement of such patent before the expiration of 45 days after the date on

which the notice given under subsection (b)(3) or (j)(2)(B) of such section was received, the courts of the United States shall, to the extent consistent with the Constitution, have subject matter jurisdiction in any action brought by such person under section 2201 of title 28 for a declaratory judgment that such patent is invalid or not infringed.

(6)(A) Subparagraph (B) applies, in lieu of paragraph (4), in the case of a patent—

(i) that is identified, as applicable, in the list of patents described in section 351(l)(4) of the Public Health Service Act or the lists of patents described in section 351(l)(5)(B) of such Act with respect to a biological product; and

(ii) for which an action for infringement of the patent with respect to the biological product—

(I) was brought after the expiration of the 30-day period described in subparagraph (A) or (B), as applicable, of section 351(l)(6) of such Act; or

(II) was brought before the expiration of the 30-day period described in subclause (I), but which was dismissed without prejudice or was not prosecuted to judgment in good faith.

(B) In an action for infringement of a patent described in subparagraph (A), the sole and exclusive remedy that may be granted by a court, upon a finding that the making, using, offering to sell, selling, or importation into the United States of the biological product that is the subject of the action infringed the patent, shall be a reasonable royalty.

(C) The owner of a patent that should have been included in the list described in section 351(l)(3)(A) of the Public Health Service Act, including as provided under

section 351(l)(7) of such Act for a biological product, but was not timely included in such list, may not bring an action under this section for infringement of the patent with respect to the biological product.

(f)(1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

(2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

(g) Whoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer, if the importation, offer to sell, sale, or use of the product occurs during the term of such process patent. In an action for infringement of a process patent, no remedy may be granted for infringement on account of the noncommercial use or retail sale of a product unless there is no

adequate remedy under this title for infringement on account of the importation or other use, offer to sell, or sale of that product. A product which is made by a patented process will, for purposes of this title, not be considered to be so made after—

(1) it is materially changed by subsequent processes; or

(2) it becomes a trivial and nonessential component of another product.

(h) As used in this section, the term "whoever" includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.

(i) As used in this section, an "offer for sale" or an "offer to sell" by a person other than the patentee, or any designee of the patentee, is that in which the sale will occur before the expiration of the term of the patent.

35 U.S.C. 284 provides:

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d).

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

No. 16-1011

In the
Supreme Court of the United States

WESTERNGECO LLC,

Petitioner,

v.

ION GEOPHYSICAL CORPORATION,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF FOR PETITIONER

TIMOTHY K. GILMAN
LESLIE M. SCHMIDT
KIRKLAND & ELLIS LLP
601 Lexington Avenue
New York, NY 10022
(212) 446-4800

PAUL D. CLEMENT
Counsel of Record
GREGG F. LOCASCIO, P.C.
JOHN C. O'QUINN
WILLIAM H. BURGESS
KIRKLAND & ELLIS LLP
655 Fifteenth Street, NW
Washington, DC 20005
(202) 879-5000
paul.clement@kirkland.com

Counsel for Petitioner

April 9, 2018

TABLE OF CONTENTS

TABLE OF AUTHORITIES ii

REPLY BRIEF 1

I. ION Does Not Dispute That The Text Of §271(f) And §284 Promises A Full Recovery. 3

II. ION's Arguments For Applying The Presumption Against Extraterritoriality To Limit Damages Caused By The Very Foreign Combinations ION Intended In Violating §271(f) Are Unsound 5

A. ION's Arguments Depend on the Demonstrably False Premise That Petitioner Seeks to Recover for a Foreign Injury. 5

B. Even if the Presumption Applies, the Plain Text and Evident Intent of §271(f) Satisfy It. 11

C. The Presumption Does Not Apply to Damages for Injuries Congress Plainly Intended to Redress 16

D. ION's Policy Arguments Miss the Mark 21

CONCLUSION 25

TABLE OF AUTHORITIES

Cases

Brulotte v. Thys Co.,
379 U.S. 29 (1964) 18

City of N. Vernon v. Voegler,
2 N.E. 821 (Ind. 1885) 7

Deepsouth Packing Co. v. Laitram Corp.,
406 U.S. 518 (1972) 1

Dowagiac Mfg. Co. v. Minn. Moline Plow Co.,
235 U.S. 641 (1915) 18

FAA v. Cooper,
566 U.S. 284 (2012) 20

Gen. Motors Corp. v. Devex Corp.,
461 U.S. 648 (1983) 3, 20

Goodyear v. Discala,
849 A.2d 791 (Conn. 2004) 7

Goulds Mfg. Co. v. Cowing,
105 U.S. 253 (1882) 18

In re Ortiz,
477 B.R. 714 (E.D. Wis. 2012) 7

Ketchum Harvester Co. v. Johnson Harvester Co.,
8 F. 586 (C.C.N.D.N.Y. 1881) 7, 8, 18

Kimble v. Marvel Entm't LLC,
135 S. Ct. 2401 (2015) 18

Merit Mgmt. Grp., LP v. FTI Consulting, Inc.,
138 S. Ct. 883 (2018) 12

Newton v. Merrill Lynch, Pierce, Fenner & Smith, Inc.,
259 F.3d 154 (3d Cir. 2001) 6

RJR Nabisco, Inc. v. European Cmty.,
136 S. Ct. 2090 (2016) 5, 9, 13

Schillinger v. United States,
155 U.S. 163 (1894) 6

Sheldon v. Metro-Goldwyn Pictures Corp.,
106 F.2d 45 (2d Cir. 1939) 21

Util. Air Regulatory Grp. v. EPA,
134 S. Ct. 2427 (2014) 12

West v. St. Louis Pub. Serv. Co.,
236 S.W.2d 308 (Mo. 1951) 7

Yale Lock Mfg. v. Sargent,
117 U.S. 536 (1886) 4, 20

Statutes

17 U.S.C. §504 21

18 U.S.C. §1964 ..... 5, 8

35 U.S.C. §154 6

35 U.S.C. §271 ..... *passim*

35 U.S.C. §281 9

35 U.S.C. §284 ..... *passim*

Other Authorities

Black's Law Dictionary (7th ed. 1999) 7

Restatement (Second) of Torts (1965) 6, 7

REPLY BRIEF

This Court granted certiorari to consider whether damages are available for the lost foreign sales that result from the domestic act of infringement prohibited by §271(f) of the Patent Act. Congress enacted §271(f) to close the loophole created by this Court's decision in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), and Congress did so by making supplying components of a patented article from the United States for intended combination abroad a prohibited act of domestic infringement. To limit the recovery available to a victim of such domestic infringement because the intended *foreign* combination and associated lost sales take place *abroad* makes no sense and would reopen the very loophole Congress sought to close.

ION has remarkably little to say about the question presented or Congress' evident intent in enacting in §271(f). Instead, ION literally attempts to rewrite the question presented (at I, 25) to focus on the Patent Act's damages provision and to omit any reference to §271(f). ION then bases virtually its entire extraterritoriality argument on the demonstrably incorrect premise that the injury here occurred abroad. In fact, consistent with Congress' deliberate decision in §271(f) to protect a U.S. patent holder from a particular form of domestic infringement (albeit one with foreseeable consequences abroad), the *injury* or invasion of a legally protected interest in a §271(f) action occurs domestically, with the measure of *damages* often reflecting the consequences of the intended foreign combination. Injury and damages are not the same

thing, and by conflating the two, ION spends much of its brief addressing the wrong thing—namely, a foreign injury case. The question here is whether the presumption against extraterritoriality limits the damages available for a domestic injury inflicted by a domestic act of infringement of a U.S. patent. No case supports the application of the presumption in that context, and this Court's patent cases going back over a century make clear that the lost profits caused by a domestic act of infringement are recoverable damages whether the foregone sales would have occurred in Montana or Manitoba.

ION's effort to focus exclusively on §284 fails on its own terms. No case of this Court applies the presumption to a damages provision, and expecting a damages provision to independently express a clear intent to allow "foreign damages" is to look for the wrong thing in the wrong place. ION has no answer for the numerous statutes that combine an express extraterritorial liability provision with a generic damages provision. Moreover, as the Solicitor General points out, the "focus" of §284 is to provide a complete remedy for a domestic act of infringement.

ION's demand for an express statement of extraterritorial intent within the four corners of §284 would plainly frustrate Congress' intent in enacting §271(f). Congress responded to *Deepsouth* by prohibiting a domestic act with intended foreign consequences. Limiting damages foreseeably caused by that domestic act because the intended foreign combination occurred abroad makes nonsense of Congress' effort.

I. ION Does Not Dispute That The Text Of §271(f) And §284 Promises A Full Recovery.

Despite its fervent defense of the Federal Circuit's holding, ION never actually disputes that, under the plain text of §271(f) and §284, a patent holder bringing an infringement action is entitled to recover damages, including lost profits, reasonably and foreseeably caused by the defendant's infringement. Nor, given §271(f)'s focus, would there be anything surprising about the lost profits stemming in part from the induced or intended combination of components *abroad*. After all, Congress enacted §271(f) to close the *Deepsouth* loophole and made an induced or intended foreign combination of the components an element of the infringement. To be sure, as ION acknowledges (at 5, 27), Congress did not directly prohibit the foreign combination. Rather, Congress prohibited a domestic act (supplying components "from the United States") undertaken with a particular intent (namely, that the components be assembled "outside the United States"). But, given that Congress required the infringer to intend a *foreign* combination, nothing in §271(f) remotely suggests that there would be a limit on recovery because the combination and associated lost sales take place *abroad*.

Nor does the text of §284 suggest any limit on recovery just because an otherwise compensable act of domestic infringement foreseeably damaged the victim by depriving it of sales outside the United States. Rather, it is common ground that §284 embodies a policy of full recovery, *see, e.g.*, *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 654-55 (1983),

including foreseeable lost profits, *see, e.g., Yale Lock Mfg. v. Sargent*, 117 U.S. 536, 552 (1886).

ION concedes (at 13, 28-29 & n.10) that the plain language of §271(f) and §284 entitles a victim of §271(f) infringement to recover a royalty for lost foreign sales. And, at times, ION appears to concede (at 28, 42) that Petitioner could have recovered for its lost sales if it had a different business model—exporting its own fully assembled products from the United States, rather than pursuing a vertically-integrated business model. Both concessions underscore the weakness of ION's position. While §284 provides royalties as a floor, its principal guarantee is "damages adequate to compensate for the infringement," and nothing in §284 suggests that royalties are especially territorial. Likewise, nothing in §284 discriminates against vertically-integrated companies that practice their own patents, as helpfully illustrated by the Solicitor General's two Acme-Copycat examples. *See* U.S.Br.13-14 & n.1.

In the end, it is clear that nothing in the text of §271(f) and §284 provides any basis to limit Petitioner's recovery. Instead, ION's effort to limit Petitioner's recovery requires resort to some atextual principle sufficient to trump traditional tools of statutory interpretation. As shown next, the presumption against extraterritoriality provides no justification for deviating from the plain text or defying Congress' evident intent.

II. ION's Arguments For Applying The Presumption Against Extraterritoriality To Limit Damages Caused By The Very Foreign Combinations ION Intended In Violating §271(f) Are Unsound.

A. ION's Arguments Depend on the Demonstrably False Premise That Petitioner Seeks to Recover for a Foreign Injury.

1. ION's argument for limiting Petitioner's damages depends almost entirely on the premise that the presumption against extraterritoriality bars the award because it compensates Petitioner for a "foreign injury." Indeed, ION invokes the "foreign injury" label, or some variant, more than a dozen times. *See, e.g.*, ION.Br. 12-14, 19-25, 31, 35-36, 39. And ION repeatedly relies on that label to analogize this case to *RJR Nabisco*, which limited the specific phrase "injur[y] in business or property" in RICO's private cause of action, 18 U.S.C. §1964(c), to domestic injuries. *RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090, 2106 (2016).

The problem for ION is that its premise is demonstrably false. Petitioner, in fact, was *injured* domestically by ION's domestic act of infringement, which invaded Petitioner's U.S. patent and resulted in *damages* that reflected foreign sales that would have occurred but for ION's domestic infringement. In insisting that this domestic infringement inflicted "foreign injury," ION has conflated the legally distinct concepts of injury and damages. That is hardly a trivial error. "Proof of injury (whether or not an injury occurred at all) must be distinguished from calculation

of damages (which determines the actual value of the injury)." *Newton v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 259 F.3d 154, 188 (3d Cir. 2001).

There can be no serious question that the *injury* here is domestic. Patent infringement is a statutory violation akin to a tort, *see, e.g.*, *Schillinger v. United States*, 155 U.S. 163, 169-70 (1894), and the Restatement of Torts makes clear that an injury occurs when "there has been an invasion of a legally protected interest." Restatement (Second) of Torts §7 (1965). Here, under §271(f), the invasion of Petitioner's legally-protected interest in its U.S. patent, which confers exclusive rights only within United States, 35 U.S.C. §154(a)(1), occurred when ION supplied components of Petitioner's patented invention from the United States with the intent that they be combined abroad. That domestic act of patent infringement inflicted a domestic injury. Indeed, ION acknowledges that its right-invading conduct was entirely domestic. *See, e.g.*, ION.Br.27-28, BIO.ii ("infringement is complete upon export"), BIO.5 (§271(f) infringement does not "go beyond acts in the United States"). By contrast, the subsequent combination and use of the components abroad by ION's customers (while it may heighten the damages caused by ION's domestic acts) did not inflict "foreign injuries" on Petitioners because those foreign acts do not invade Petitioner's legally protected interest in its U.S. patents. Although those foreign combinations were fully intended by ION and foreseeably increased Petitioner's damages from ION's domestic infringement, they do not constitute either patent infringement or a legally cognizable foreign injury.

The terms "damages" and "injury" thus stand for two very different things. Numerous state and federal courts, the Restatement, and *Black's Law Dictionary* recognize that, while damages provide redress for an injury, they are separate and apart from the injury itself. *See, e.g., Goodyear v. Discala*, 849 A.2d 791 (Conn. 2004) ("'The concept of 'damages' ... is distinct from the legal injury from which damages arise." (footnote omitted)); *In re Ortiz*, 477 B.R. 714, 727 (E.D. Wis. 2012) ("[I]n ordinary legal usage, there is a distinction between 'injury' and 'damages.'") (citing Black's Law Dictionary (7th ed. 1999)).[1]

This fundamental distinction between the domestic injury or violation and damages has long been acknowledged in patent law and relied upon to uphold damages calculated by reference to lost foreign sales as a remedy for a domestic act of infringement. For example, in *Ketchum Harvester Co. v. Johnson Harvester Co.*, 8 F. 586, 586 (C.C.N.D.N.Y. 1881), the court explained that the patent "gave protection in the United States in making machines in the United States for sale abroad." When the defendant invaded that legally protected interest in the United States, it was "no injustice to attribute to the unlawful act all the consequences which flow from it," including lost foreign sales. *Id.* at 587. Rather, "to deprive the

---

[1] *See also West v. St. Louis Pub. Serv. Co.*, 236 S.W.2d 308, 310 (Mo. 1951) (a jury, "credited with common sense and reasonable discernment" would not misunderstand the "'amount of damages' to mean 'nature, character or extent of injuries'"); *City of N. Vernon v. Voegler*, 2 N.E. 821, 824 (Ind. 1885) ("[t]here is a material distinction between damages and injury"); *compare* Restatement (Second) of Torts §7 (defining "injury"), *with id.* §§12A, 902 (defining "damages").

patentee of all damages for unlawful making here, because the article is sold abroad, is to deprive him of part of what his patent secures to him." *Id.*

It is hardly an accident that the injury at issue here is domestic. Responding to this Court's decision in *Deepsouth*, Congress deliberately sought to pinpoint the domestic act of supplying components from the United States (with the intent that they be combined abroad) as the act of infringement that injures a U.S. patent holder, rather than extending U.S. law to prohibit the overseas combination itself. At the same time, however, Congress was necessarily aware that the injured patent holder would typically suffer damage as a result of the intended foreign combination coming to fruition, and it makes no sense to think that Congress wanted to limit compensation to the injured U.S. patent holder because the intended foreign combination and resulting lost sales took place *abroad*. Put differently, Congress, in overruling *Deepsouth*, wanted to provide full compensation for a domestic act that while inflicting domestic *injury* would typically involve *damages* measured in part by lost foreign sales displaced by the very foreign combinations intended as part of the domestic violation.

2. Once it is understood that the injury here is domestic not foreign, ION's attempt to treat this case as a close cousin to *RJR Nabisco* collapses. *RJR Nabisco* was a case about the injury necessary for RICO's private cause of action and not about damages. Indeed, the language of the relevant provision, 18 U.S.C. §1964(c), distinguishes on its face between injury and damages—providing that "[a]ny person

injured in his business or property by reason of a violation of section 1962 ... shall recover threefold the *damages* he sustains" (emphasis added)—and this Court focused only on the need for a domestic injury. Specifically, the Court analyzed which persons were entitled to sue for their injuries, not the damages available to those entitled to sue. Addressing the scope of RICO's private cause of action, and applying the presumption against extraterritoriality in that context, this Court held that, for an injured person to maintain a cause of action, the injury must be domestic. *RJR Nabisco*, 136 S. Ct. at 2106 ("A private RICO plaintiff therefore must allege and prove a *domestic* injury to its business or property."). But nothing in *RJR Nabisco* suggests, let alone holds, that a domestically injured RICO plaintiff could not recover damages from that domestic injury reflecting some foreign component, such as lost foreign sales.[2]

Indeed, if concepts of injury and damages are kept distinct, *RJR Nabisco* affirmatively undermines ION's position. In interpreting §1964(c), the Court ultimately drew a sharp line between recovery for domestic injuries (permissible) and recovery for foreign injuries (impermissible absent clearer language). Here, Congress deliberately made infringement under §271(f) a domestic act, and the resulting injury—the invasion of the U.S. patent

---

[2] The analogous Patent Act provision to the *injury* language in §1964(c) analyzed in *RJR Nabisco* is not §284, but §281, which grants a patentee a "remedy by civil action for infringement of his patent." Respondent has nothing to say about §281 because it only underscores that the relevant injury for the Patent Act's cause of action is the "infringement of [Petitioner's] patent," which all agree occurred domestically.

holder's exclusive right—is domestic as well. Thus, under *RJR Nabisco*, the injury suffered by Petitioner falls squarely on the permissible/domestic-injury side of the line.

Finally, it bears emphasis that nothing in *RJR Nabisco* suggests that damages suffered as result of a domestic injury are suspect, just because they reflect activity with a foreign component. The Court did not so much as hint that, *even if* a private RICO plaintiff alleges and proves a domestic injury, the presumption against extraterritoriality should be applied yet again, to the next clause in §1964(c), to limit damages with a foreign component.[3] Nor does *RJR Nabisco* suggest any reason why applying the presumption to damages from domestic injuries would make any sense or advance the concerns that animate the presumption. Thus, ION's efforts to apply the presumption against extraterritoriality in a case of domestic injury and to apply it to a damages provision are both entirely unprecedented.

Apart from its flawed reliance on *RJR Nabisco*, ION makes no serious attempt to explain why the injury inflicted by its domestic act of infringement is anything but domestic. Rather, "[t]he best evidence" ION offers that Petitioner suffered "foreign injury" is that *Petitioner's brief* refers to "foreign profits" or uses similar phrases. ION.Br.23. A shorthand reference to *damages* in an opposing party's brief is an odd place to look for evidence of *injury*. In fact, the phrase "foreign

---

[3] For example, nothing in *RJR Nabisco* suggests that if mobsters torched a warehouse near Baltimore's harbor the amount of recovery would turn on whether the contents were destined for foreign or domestic sale.

profits" originates with the Federal Circuit, *see* Pet.App.45a, not Petitioner. And the critical point was and remains that the Federal Circuit's use of the presumption to limit damages from a domestic injury/act-of-infringement just because the lost profits would have been earned abroad through sales displaced by ION's domestic actions is fundamentally mistaken. If Petitioner's references to the inapplicability of the presumption to damages for lost "foreign profits" are ION's "best evidence" that the injuries here were foreign, it has no evidence at all.

B. Even if the Presumption Applies, the Plain Text and Evident Intent of §271(f) Satisfy It.

As Petitioner explained in its opening brief, because §271(f) prohibits a domestic act of infringement, which inflicts a domestic injury, the presumption against extraterritoriality is inapplicable here. *See* Pet.Br.28-34. But even if the presumption were extended beyond its recognized application to foreign conduct and foreign injury, it would be rebutted here. Section 271(f) not only prohibits a particular domestic act of infringement, but it prohibits a domestic act (supplying components from the United States) with a foreign-focused intent (that the components be assembled abroad in a manner that would infringe if it occurred in the United States). While the foreign combination need not actually occur for §271(f) to be violated, the intended foreign combination will in fact occur in the vast majority of cases, and it will occur abroad. That is all precisely as Congress anticipated. Thus, to limit the recovery

because the intended *foreign* combinations caused damage *abroad* is to ignore Congress' evident intent.

ION's principal answer to this is to try to change the subject. Indeed, ION quite literally rewrites the question presented to focus on §284 and insists that the extraterritoriality analysis must focus on that damages provision alone, without reference to §271(f). There are multiple problems with that blinkered approach, even beyond the undeniable fact that this Court granted certiorari on a question addressed to §271(f), and not §284.

First, ION's blinkered approach is inconsistent with basic principles of statutory interpretation. It is a "fundamental canon of statutory construction" that "the words of a statute must be read in their context and with a view to their place in the overall statutory scheme." *Util. Air Regulatory Grp. v. EPA*, 134 S. Ct. 2427, 2441 (2014). That canon does not depend—as ION suggests (at 26 & n.7)—on whether different parts of a statute were placed in the U.S. Code simultaneously or at different times. *See, e.g., Merit Mgmt. Grp., LP v. FTI Consulting, Inc.*, 138 S. Ct. 883, 895 (2018) (construing amendment to the Bankruptcy Code in context of earlier-enacted provisions).

The importance of considering "the overall statutory scheme" has particular force in the context of damages provisions in general and §284 in particular. Damages provisions make little sense divorced from the liability-imposing provisions they complement, and §284 references §271 by authorizing "damages adequate to compensate *for the infringement*." (emphasis added). The infringement here is ION's violation of §271(f).

Moreover, ION's approach contradicts the methodology employed in this Court's extraterritoriality cases. In *RJR Nabisco*, for example, the Court rejected an invitation to isolate the "patterns of racketeering" language in 18 U.S.C. §1962, note the absence of a reference to "foreign racketeering" in "RICO itself," and call it a day. 136 S. Ct. at 2102. Rather than adopt "such a constricted approach," the Court looked to the referenced predicate acts and acknowledged that some of them prohibited foreign conduct. *Id.* More broadly, the Court noted that "[a]ssuredly context can be consulted" and found context "dispositive." 136 S.Ct. at 2102 (quotation omitted).

Here, context requires consideration of §271(f). As noted, §284 provides for "damages adequate to compensate *for the infringement*." (emphasis added). The infringement here is a violation of §271(f), and thus Congress expressly provided for compensation for domestic infringement that typically involves combinations of components abroad. In short, both the text and context of §284 demand consideration of Congress' deliberate judgment in §271(f).

It is readily apparent, of course, why ION tries so hard to keep the Court from looking at §271(f). ION.Br.25 (describing §271(f) as "the wrong provision"). In that provision, Congress not only made clear which actions "in or from the United States" would trigger liability, but was explicit that the domestic infringer must induce or intend the components to be combined "outside of the United States." When the intended foreign combination

occurs, there is no plausible basis for limiting damages because the damaging combination occurred abroad.

Applying ION's blinkered approach has the additional defect that taken to its logical conclusion, it would mean there is no compensation whatsoever for the vast majority of §271(f) violations. After all, nothing in §284, including its language concerning reasonable royalties, is expressly extraterritorial. ION nonetheless suggests that Petitioner may recover *royalties* (but not lost profits) associated with foreign sales. ION.Br.13, 28-29 & n.10. That concession is fatal to ION's case.

ION suggests that "[i]n calculating a reasonable royalty," "a factfinder *may consider the expected foreign use* of an object"—though in the royalty *rate* rather than the *base*. ION.Br.29 n.10 (emphasis added). This apparent attempt to escape the consequences of ION's own look-only-to-§284 rule draws an imaginary distinction with no basis in §284. With respect to the permissibility of so-called "foreign use" evidence, Congress made no distinctions between lost profits and royalties or between rates and bases in §284 or anywhere else. For ION to concede that evidence of "foreign use" is properly part of any damages analysis, despite the absence of any express authorization in §284, leaves ION without any coherent basis to resist the use of such evidence in quantifying Petitioner's lost profits.

ION suggests otherwise by insisting that here "foreign activity did not merely shed light on the existence of liability or a domestic injury; the damages were compensation *for* the foreign activity." ION.Br.35. But that is doubly incoherent. First, the

damages do not compensate *for* any *foreign activity*, they compensate *for domestic* infringement that results in the victim's foreign *in*activity, *i.e.*, the *absence* of foreign sales and profits by Petitioner. More fundamentally, ION once again conflates injury and damages. II.A, *supra*. Petitioner is being compensated for a domestic injury inflicted by ION's domestic infringement, and that is equally true whether compensation for that domestic injury takes the form of a lost profits award or a reasonable royalty for "foreign use" of the combined components. Nor does it make sense to prefer a hypothetical royalty to more accurate evidence of the damage actually inflicted by ION's §271(f) violation. If courts can permissibly consider "expected foreign use" to formulate a royalty rate, ION.Br.29 n.10, they must necessarily be able to consider evidence of *actual* foreign sales lost because of domestic infringement.

Finally, even setting aside ION's fatal concession, and even accepting its argument that §284 must be analyzed in isolation and subjected to the wooden extraterritoriality analysis that ION suggests, the decision below must still be reversed. As the Solicitor General has argued, applying "step two" of *RJR Nabisco*, it is plain that the "application" and "focus" of §284 here are domestic—providing compensation for "the [domestic] infringement," not policing or prohibiting the foreign combinations themselves. *See* U.S.Br.33; *see also* IPOA.Br.19-21; IP.Scholars.Br.13. ION responds that "[t]he statute's 'focus' ... is self-evidently on the award of damages." ION.Br.22. But since it is an award of damages by a domestic court for a domestic act of infringing a U.S. patent, it is hard to escape the conclusion that the application and focus of

§284 are domestic, even when full compensation for the domestic infringement involves a measure of damages that reflects the reality that ION's domestic infringement cost Petitioner at least ten contracts for services that otherwise would have been provided on the high seas.

C. The Presumption Does Not Apply to Damages for Injuries Congress Plainly Intended to Redress.

ION's demand that the Patent Act's damages provision expressly and independently indicate an intent to allow damages reflecting foreign lost sales or wages suffers an even greater defect: the presumption simply does not apply to damages provisions. Rather than attempting to directly regulate any actual conduct, damages largely seek to reconstruct what would have occurred in the absence of a legal injury. That counterfactual reconstruction effort does not implicate comity interests or the presumption against extraterritoriality. Once Congress has made clear that it wants to redress an injury—whether domestic or foreign—the general rule is and should be that damages are available without any special disability for foreign lost sales or wages—or any need for special clarity on the part of Congress. ION is forced to concede that the common law allows for the recovery of foreign lost sales or wages. Nothing in common sense or this Court's cases presumptively requires a contrary rule for statutory damages provisions. Instead, there is every reason to believe Congress intends to incorporate the common law, which is consistent with over a century of this Court's patent

cases. There is no reason to deviate from that precedent and multiple reasons to reaffirm it.[4]

First, as Petitioner noted in its opening brief, there are multiple statutes in which Congress has coupled an expressly extraterritorial liability provision with a generic damages provision. *See* Pet.Br.40 & n.10. Application of ION's clear-statement-in-the-damages-provision approach to those statutes would gut Congress' evident intent in prohibiting *and* remedying specific extraterritorial conduct just as dramatically as ION's position would eviscerate §271(f). ION's response to these multiple examples is telling. It quibbles about one, the ADEA, and says nothing about the rest. ION.Br.32-33. Even ION's quibble is misplaced because it rests on its misreading of *RJR Nabisco*. But ION's silence on the other statutes is truly revealing. Once Congress has made clear it wants to prohibit certain foreign conduct (or, as in §271(f), certain domestic conduct with intended foreign effects), asking the accompanying damages provision to expressly authorize damages with a foreign component is to demand redundancy and to frustrate, rather than effectuate, Congress' evident intent.

Second, even in the context of purely domestic prohibitions, such as the unauthorized making of a

---

[4] Rather than grapple with Petitioner's actual arguments, ION prefers to attribute to Petitioner and then knock down a "single pass" rule and the argument that the presumption applies only to regulation of primary conduct. IONBr.31-33. Petitioner never made either argument, and ION's enthusiasm for tackling those strawmen leaves it with little defense for the unprecedented step of applying the presumption to a damages provision.

patented article in the United States, longstanding precedent of this Court, and lower federal courts, rejects the notion that foreign sales foreseeably lost by virtue of domestic misconduct are unrecoverable. This rule is particularly longstanding and well-established in the patent context. *See, e.g., Goulds Mfg. Co. v. Cowing*, 105 U.S. 253 (1882); *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641 (1915); *Ketchum*, 8 F. at 587. Without suggesting that any of those cases have been superseded or were wrongly decided, ION simply derides them as "century-old cases." ION.Br.25, 39. But this Court's cases do not come with expiration dates. *See, e.g., Kimble v. Marvel Entm't LLC*, 135 S. Ct. 2401 (2015) (reaffirming *Brulotte v. Thys Co.*, 379 U.S. 29 (1964)).

ION attempts to distinguish these cases by distinguishing the business models of the patentees in those cases from Petitioner's, and suggesting that the lost foreign sales in those cases were somehow more "domestic." ION.Br.39-42. But to the extent that ION is arguing that lost foreign profits are recoverable when the lost foreign sales would have been exports of goods, but not when the patent holder would have used its patent to perform a service abroad, its position has truly devolved into incoherence. Nothing in the patent laws or the presumption draws such a distinction or disadvantages U.S. patent holders who practice their own patents. And to the extent that ION perceives the exporter to have suffered a more domestic *injury*, that just reflects ION's conflation of injury and damages. *See* II.A, *supra*.

Third, in civil cases generally, courts routinely award damages for unlawful domestic conduct,

quantified by reference to foreign activities, without any suggestion that that practice implicates comity concerns or triggers the presumption against extraterritoriality. Pet.Br.44-46 & n.11. ION responds, yet again, with its "foreign injury" premise, contending that Petitioner's real "injury" is inflicted by ION's customers abroad rather than by ION domestically, ION.Br.38-39. But Petitioner's *injury* is most certainly inflicted by ION's domestic infringement and not by foreign third-party actions, which do not violate Petitioner's U.S. patent rights but may exacerbate the damages caused by ION's domestic infringement. *See supra.* ION remains accountable for the foreseeable consequences of its domestic infringement, just as someone tortiously injuring a foreign tourist here must account for foreign lost wages or medical bills or a buyer injured by a breached sales contract here can recover lost profits based on its inability to execute a planned resale abroad. *Id.* There is no relevant distinction between those examples and this case, and only by conflating the concepts of injury and damages can ION contend otherwise.

ION concedes that the common law permits such "foreign" recoveries, but suggests that the presumption against extraterritoriality may not apply to common law actions. ION.Br.38. That would seem to get matters backwards. There is no logical reason for making it easier for state judges to create friction with foreign sovereigns than for Congress to do the same. That said, by allowing make-whole damages for domestic injuries, even when the calculation reflects lost foreign sales or wages, the common-law rule promotes comity. It would hardly further foreign

relations for a foreign tourist or diplomat injured in Philadelphia to receive less compensation than a comparably injured Philadelphian just because the foreign victim's damages award reflects lost wages in a foreign workplace or medical bills from a foreign hospital.

ION's concession about the common law ignores that the compensatory damages authorized by many federal statutes including the Patent Act—*i.e.*, "damages adequate to compensate"—reflect Congress' adoption of a common-law remedy. 35 U.S.C. §284; Yelderman.Br.4-5. When Congress adopts a common-law term without supplying a definition, it is generally assumed to have adopted the cluster of ideas associated with that term. *FAA v. Cooper*, 566 U.S. 284, 291-92 (2012). This Court's precedent already recognizes that §284 entitles prevailing patent plaintiffs to the traditional tort measure of damages, *see, e.g.*, *Gen. Motors*, 461 U.S. at 654-56; *Yale Lock*, 117 U.S. at 552, and the common-law rule allowing damages to account for foreign lost wages and sales is just an additional aspect of the common law incorporated into §284.

Finally, ION contends that copyright's predicate-act doctrine depends on a constructive-trust rationale limited to a disgorgement-of-profits remedy and thus inapplicable to make-whole damages under the Patent Act. ION.Br.44-46. But the same basic logic applies to disgorgement and damages, and, if anything, it is harder to explain why a copyright infringer must disgorge its profits from the non-infringing foreign exhibition of a film *in addition to* paying the victim's actual damages for the domestic act of infringement.

See 17 U.S.C. §504(a) (authorizing recovery of "actual damages and any additional profits of the infringer"). Judge Hand nonetheless allowed disgorgement of profits from the foreign exhibitions by tracing them back to the predicate act of making negatives here, which "was a tort ... in this country." *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52 (2d Cir. 1939). In reaching that conclusion, Judge Hand relied on the domestic nature of the predicate "tort" and this Court's patent decisions in *Goulds* and *Dowagiac*. The notion that comparable principles do not apply (if anything, *a fortiori*) to make-whole damages in patent cases is specious.

D. ION's Policy Arguments Miss the Mark.

ION rounds out its brief with concerns about "comity" and unbounded "worldwide patent damages." Those concerns are misplaced. There are no "comity" concerns with ensuring that compensation for §271(f) infringement makes the victim whole for the foreseeable consequences of the domestic infringement including the very intended foreign combinations necessary for a §271(f) violation. Similarly, principles of proximate cause can weed out unreasonable and extravagant damage theories.

1. ION raises the specter that allowing damages that compensate a patentholder for the full extent of its damages will cause friction with foreign countries and related "comity" concerns. There are multiple problems with that submission not the least of which is ION's inability to point to any serious comity concerns or foreign-country complaints during the decades in which the rule laid down in *Goulds* and *Dowagiac* (and *Ketchum*) held sway. Nor can ION

point to comity concerns or protests concerning the common-law rule or copyright's predicate-act doctrine. *See* U.S.Br.21. Nor, despite ION's dire warnings about the threat to comity posed by this case, have any foreign governments stepped forward to file amicus briefs urging affirmance. This chorus of non-barking dogs is telling. If there were any real "comity" concerns with the well-established principle that damage awards may reflect lost foreign wages and sales, complaints would be audible.

Moreover, Congress itself accommodated comity concerns and minimized friction by responding to *Deepsouth* with the distinct approach of §271(f). Instead of making certain foreign combinations of components an act of infringement, Congress took the more comity-friendly approach of defining a specific domestic act of infringement and making the domestic infringer liable for the resulting damages, including those caused by the very foreign combinations the domestic infringer intended.

Congress' specific mode of responding to *Deepsouth* also answers ION's suggestion that Petitioner should try to enforce its foreign patents rather than seek full compensation for §271(f) infringement. Even after *Deepsouth*, patent holders retained the option of enforcing their foreign patents. If Congress wanted to leave inventors to that option, it would have responded to *Deepsouth* with nothing. Instead, it took action to give companies like Petitioner a remedy for infringement of their U.S. patents by domestic conduct that would predictably lead to combinations abroad. ION suggests in passing (at 50) that allowing damages in a case like this might

put the United States out of compliance with its obligations under certain international agreements. Suffice it to say that the United States is fully cognizant of its international obligations and supports reversal of the Federal Circuit's decision.

2. As to proximate cause, ION suggests that proximate-causation limits were not enough to carry the day in *RJR Nabisco*, but that case about the need for domestic injury is distinguishable for all the reasons explained above. ION worries that juries cannot "take into account comity considerations," ION.Br.51, but ION's comity concerns are misplaced and juries are certainly up to the task of making determinations about the speculativeness and foreseeability of damages. *See* JA70 (instructing jury that Petitioner not entitled to "damages that are remote or speculative"). Of course, when an infringer like ION supplies components from the United States with the intent that they be combined abroad, damages resulting from that foreign combination are likely to be entirely foreseeable (in a manner that may not be the case for other forms of infringement). Here, moreover, despite ION's grousing about the size of the award, Petitioner proved its lost profits based on ten specific contracts it lost as a direct result of ION's infringing effort to target a lucrative market Petitioner had pioneered. There was nothing speculative about that demonstration of concrete loss.

ION ends its brief (at 53) with a suggestion that Petitioner direct its concerns to Congress. But Congress could be excused for thinking it has done its work here in enacting §271(f) as a response to *Deepsouth*. Having made supplying components from

the United States with the intent that they be combined abroad an act of domestic infringement and having provided for damages, including lost profits, Congress would be surprised to find it must do something more to specify that damages are available even when the intended foreign combination and associated lost sales take place abroad. Telling Congress that such redundancy is required will not prompt a healthy interbranch dialogue or vindicate the purpose of interpretive canons, which is, after all, to elucidate Congress' evident intent. There is, of course, no need to prompt such congressional headscratching. This Court has never applied the presumption against extraterritoriality in a case of domestic injury. It has never applied the presumption to a damages provision. And it has never suggested that a prohibition on supplying components with an intent that they be combined abroad is insufficient to allow compensation for damages occasioned when the intended foreign combination comes to fruition. This case should not be the first.

CONCLUSION

The Court should reverse the decision below.

Respectfully submitted,

TIMOTHY K. GILMAN
LESLIE M. SCHMIDT
KIRKLAND & ELLIS LLP
601 Lexington Avenue
New York, NY 10022
(212) 446-4800

PAUL D. CLEMENT
Counsel of Record
GREGG F. LOCASCIO, P.C.
JOHN C. O'QUINN
WILLIAM H. BURGESS
KIRKLAND & ELLIS LLP
655 Fifteenth Street, NW
Washington, DC 20005
(202) 879-5000
paul.clement@kirkland.com

Counsel for Petitioner

April 9, 2018

No. 16-1011

IN THE

Supreme Court of the United States

WESTERNGECO L.L.C.,

Petitioner,

v.

ION GEOPHYSICAL CORPORATION,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

SUPPLEMENTAL BRIEF FOR THE RESPONDENT

JUSTIN M. BARNES
TROUTMAN SANDERS LLP
11682 El Camino Real,
Suite 400
San Diego, California 92130
(858) 509-6000

DANIELLE J. HEALEY
Counsel of Record
BRIAN G. STRAND
BAILEY K. HARRIS
FISH & RICHARDSON P.C.
1221 McKinney Street,
Suite 2800
Houston, Texas 77010
(713) 654-5300
healey@fr.com

Attorneys for Respondent

December 20, 2017

TABLE OF CONTENTS

Page

INTRODUCTION 1

THIS CASE IS A POOR VEHICLE IN WHICH TO ADDRESS THE AVAILABILITY OF EXTRATERRITORIAL PATENT DAMAGES 3

I. The Parties and the United States Do Not Agree on the Question Presented 3

II. The Court Should Not Address the Availability of Extraterritorial Patent Damages for the First Time in a Case Arising Under § 271(f) 5

III. The Federal Circuit Has Not Yet Applied *RJR Nabisco* in Considering the Availability of Extraterritorial Patent Damages 7

IV. The Predicate-Act Doctrine in Copyright Law Does Not Provide a Valid Reason for the Court To Grant Review 10

CONCLUSION 12

TABLE OF CITED AUTHORITIES

Page

CASES:

Bascuñán v. Elsaca, 874 F.3d 806 (2d Cir. 2017) 10

Bd. of Trs. of Univ. of Ala. v. Garrett,
531 U.S. 356 (2001) 4

Carter v. Welles-Bowen Realty, Inc.,
736 F.3d 722 (6th Cir. 2013) 3

City & Cty. of San Francisco v. Sheehan,
135 S. Ct. 1765 (2015) 4

Clark v. Martinez, 543 U.S. 371 (2005) 3

Comcast Corp. v. Behrend, 133 S. Ct. 1426 (2013) 4

Dart Cherokee Basin Operating Co., LLC v. Owens,
135 S. Ct. 547 (2014) 4

Deepsouth Packing Co. v. Laitram Corp.,
406 U.S. 518 (1972) 5

Halo Electronics, Inc. v. Pulse Electronics, Inc.,
136 S. Ct. 1923 (2016) 9

Life Techs. Corp. v. Promega Corp.,
137 S. Ct. 734 (2017) 5

L.A. News Serv. v. Reuters Television Int'l Ltd.,
340 F.3d 926 (9th Cir. 2003), *cert. denied*,
541 U.S. 1041 (2004) 11

McLane Co. v. EEOC, 137 S. Ct. 1159 (2017) 10

Cited Authorities

Page

McWilliams v. Dunn, 137 S. Ct. 1790 (2017) 4

Microsoft Corp. v. AT&T Corp., 550 U.S. 437 (2007) 5, 6, 11

Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc., 711 F.3d 1348 (Fed. Cir. 2013), *cert. denied*, 134 S. Ct. 900 (2014) 6

RJR Nabisco, Inc. v. European Community, 136 S. Ct. 2090 (2016) ..... *passim*

Sheldon v. Metro-Goldwyn Pictures Corp., 106 F.2d 45 (2d Cir. 1939) 11

Visa Inc. v. Osborn, 137 S. Ct. 289 (2016) 4

STATUTES & OTHER AUTHORITIES:

18 U.S.C. § 1962 8

18 U.S.C. § 1964(c) 8

35 U.S.C. § 271(a) 1, 5, 6, 7

35 U.S.C. § 271(f) ..... *passim*

35 U.S.C. § 284 ..... *passim*

Donald S. Chisum, *Chisum on Patents* (2017) 6

INTRODUCTION

The government's brief confirms that petitioner has presented the incorrect question to this Court and that this case is a poor vehicle in which to decide whether extraterritorial damages—that is, damages for foreign uses—are available in patent cases. The petition for writ of certiorari should therefore be denied.

In the petition for certiorari, petitioner framed the question presented in terms of, and crafted its arguments under, 35 U.S.C. § 271(f), one of a number of statutory subsections that define substantive acts of patent infringement. But the government does not view this case in terms of § 271(f); it frames the question presented, and indeed the whole case, radically differently. Like respondent, the government recognizes that any question about the scope of damages for patent infringement necessarily turns on the interpretation of 35 U.S.C. § 284, the Patent Act's damages provision. Also like respondent, therefore, the government frames its question presented in terms of, and crafts its arguments under, § 284.

The evident disagreement over the question presented is reason enough to deny the petition. It also demonstrates why a case arising under § 271(f) is a poor vehicle in which to address the availability of extraterritorial patent damages. Section 284 applies to *all* of the acts of infringement set out in § 271. Resolving the availability of extraterritorial damages in a case arising under § 271(f)—a minor gap-filling provision that, unlike the rest of § 271, focuses on the export of components from the United States—is likely to distort the analysis. The better option is for the Court first to tackle the issue of extraterritorial damages in a case arising under § 271(a),

which supplies the most common basis for liability for patent infringement.

Another reason to leave the question presented for another day is this Court's recent decision in *RJR Nabisco, Inc. v. European Community*, 136 S. Ct. 2090 (2016), which the government addresses at length. *See* U.S. Br. at 10-15. *RJR Nabisco*'s framework for analyzing the extraterritorial reach of statutes applies here, but the Federal Circuit has not considered the question presented in light of that framework. Before the Court addresses the availability of extraterritorial patent damages, it should at least have the benefit of the Federal Circuit's analysis on the application of *RJR Nabisco* in this context.

Finally, the government's invocation of cases involving the copyright predicate-acts doctrine does not provide a valid reason for the Court to grant review. The government's approach would seemingly require the Court to decide a question of first impression under copyright law—one that no court of appeals has addressed since *RJR Nabisco*—and then to decide whether the same analysis should apply here. It would thus introduce yet more antecedent questions into an already complicated case.

For all of these reasons, as well as the reasons already stated in the brief in opposition, WesternGeco's petition for writ of certiorari should be denied.

THIS CASE IS A POOR VEHICLE IN WHICH TO ADDRESS THE AVAILABILITY OF EXTRATERRITORIAL PATENT DAMAGES

I. The Parties and the United States Do Not Agree on the Question Presented

Petitioner's version of the question presented focuses on application of the presumption against extraterritoriality in cases arising under one particular patent-infringement provision, § 271(f). *See* Pet. at i. That framing guides petitioner to present most of its arguments in terms of § 271(f). *See* Pet. at 1-2, 12, 16-20, 26-31; Reply Br. at 3-7. But that makes little sense. Petitioner challenges the judgment below as awarding an improper amount of *damages*, rather than reaching the wrong conclusion as to *liability*. The damages available in a patent action are governed by the Patent Act's damages provision, § 284, not by § 271. And as petitioner concedes, § 284 "is a general damages provision that does not distinguish among types of infringement." Pet. at 7. The proper interpretation of § 284 cannot depend on which type of infringement is at issue; "a statute is not a chameleon" whose "meaning . . . change[s] from case to case." *Carter v. Welles-Bowen Realty, Inc.*, 736 F.3d 722, 730 (6th Cir. 2013) (Sutton, J., concurring); *see also Clark v. Martinez*, 543 U.S. 371, 380-81 (2005). Because a ruling in this case would apply to damages under any subsection of § 271, petitioner's § 271(f)-specific arguments should not drive the analysis.

For that reason, respondent reframed the question presented in terms of § 284. *See* Br. in Opp. at i. The government apparently agrees that the question should

focus on § 284; its proposed question does not even mention § 271(f). *See* U.S. Br. at i. As the case now stands, therefore, one party and the government believe that the question presented should focus on one statutory provision, while the other party believes that the question should focus on another.

That divergence alone provides good reason to deny the petition. Confusion or disagreement over the question presented frequently results in dismissal of a petition (or part thereof) as improvidently granted. *See, e.g.*, *Visa Inc. v. Osborn*, 137 S. Ct. 289, 289-90 (2016); *City & Cty. of San Francisco v. Sheehan*, 135 S. Ct. 1765, 1772-74 (2015); *Bd. of Trs. of Univ. of Ala. v. Garrett*, 531 U.S. 356, 360 n.1 (2001). And even when dismissal does not occur, the contours of the question presented may further divide the Court. *See McWilliams v. Dunn*, 137 S. Ct. 1790, 1806-08 (2017) (Alito, J., dissenting) (5-4 decision); *Dart Cherokee Basin Operating Co., LLC v. Owens*, 135 S. Ct. 547, 558-59 (2014) (Scalia, J., dissenting) (same); *Comcast Corp. v. Behrend*, 133 S. Ct. 1426, 1435-36 (2013) (Ginsburg, J., dissenting) (same).

Division over the question presented could prove particularly problematic in this case. The author of the Court's most recent decision on the presumption against extraterritoriality—itself a 4-3 decision—appears to be recused. *See* 137 S. Ct. 2206 (2017); *see also RJR Nabisco*, 136 S. Ct. at 2096. That raises the specter of an affirmance by an equally divided Court. Given these prudential considerations, the better course would be to await a case in which the correct question is properly presented and the entire Court is available to decide it.

II. The Court Should Not Address the Availability of Extraterritorial Patent Damages for the First Time in a Case Arising Under § 271(f)

The disagreement between the parties over the question presented reflects a substantive flaw in this case as a vehicle for the Court's review: it arises under § 271(f), a rarely applied provision that differs from the rest of § 271 in its focus on exports from the United States.

As the Court has explained, Congress enacted § 271(f) in response to the Court's earlier decision in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972). *See Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 442-45 (2007). In *Deepsouth*, the Court held that a manufacturer did not violate § 271 by making the components of a patented machine and exporting those components for assembly abroad. *See* 406 U.S. at 526-29. Section 271(f) "fill[ed] a gap" left by *Deepsouth* by making a component exporter equally as liable as a manufacturer that assembles the patented item domestically. *Life Techs. Corp. v. Promega Corp.*, 137 S. Ct. 734, 743 (2017).

Section 271(f) imposes *liability* by defining certain acts as patent infringement. But it says nothing about the scope of *damages* available for infringement. It is the Patent Act's damages provision in § 284—not the liability provisions in § 271—that governs whether lost profits for foreign uses are available as damages for patent infringement. But because § 271(f), unlike § 271(a), "specifically addresses [an] issue of extraterritorial application," *Microsoft*, 550 U.S. at 456 (alteration in original) (citation omitted), addressing the issue of extraterritorial patent damages for the first time in a § 271(f) case would obscure

the analysis—especially where, as here, petitioner relies heavily on the idiosyncratic features of § 271(f).

Addressing the issue of extraterritorial damages in a case arising under § 271(a) would avoid that problem. Section 271(a) creates liability for "direct" infringement—the principal form of infringement under the Patent Act. *See* 5 Donald S. Chisum, *Chisum on Patents* § 17.01, at 17-2 to 17-2.1 (2017). This Court has already decided that § 271(a) does not apply extraterritorially. *See Microsoft*, 550 U.S. at 443. Addressing the issue of extraterritorial damages in a case arising under § 271(a) would thus focus the analysis where it properly belongs: on § 284. Given § 271(a)'s broad application, a case arising under that provision would be more representative of the issues implicated by the potential availability of extraterritorial damages. Such candidates for review will be plentiful, because the Federal Circuit has already held that a patent holder cannot recover lost foreign profits in cases arising under § 271(a). *See Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348, 1371-72 (Fed. Cir. 2013), *cert. denied*, 134 S. Ct. 900 (2014).

Even if petitioner were correct that the analysis properly turns on the type of infringement at issue (a position the government conspicuously does not endorse), it would still make sense first to consider whether a patent holder can recover extraterritorial damages in a case arising under § 271(a). Congress enacted § 271(f) to place the exporters of components of patented items in a "similar position" to manufacturers that assemble the infringing product domestically and are liable under § 271(a). Pet. App. 45a. The government suggests that damages are available for foreign injuries in cases under *both* provisions, but petitioner contends that foreign lost profits

are recoverable only under § 271(f) because that provision reflects a "congressional judgment to target certain extraterritorial conduct." Pet. at 19. It would be more orderly for the Court first to consider the availability of extraterritorial damages under a more commonly invoked infringement provision such as § 271(a), and then (and only then) to consider whether § 271(f) presents special considerations that other infringement provisions do not.

In short, the Court should address the question of extraterritorial patent damages, if at all, in a case arising under § 271(a). The petition for certiorari should therefore be denied.[1]

III. The Federal Circuit Has Not Yet Applied *RJR Nabisco* in Considering the Availability of Extraterritorial Patent Damages

Even if the Court were inclined to address the availability of extraterritorial patent damages for the first time in the context of § 271(f), now would not be the time to do so. Since the Federal Circuit's initial decision in this case, the Court has issued *RJR Nabisco, Inc. v. European Community*, 136 S. Ct. 2090 (2016)—a decision the government recognizes must be addressed in any analysis of the merits, *see* U.S. Br. at 10-15. But the Federal Circuit has not yet considered the issue of extraterritorial patent

1. The posture of this case further counsels against certiorari. As the government points out, the Federal Circuit did not consider whether respondent's export of components from the United States proximately caused the lost *services* profits claimed by petitioner. *See* U.S. Br. at 9; *see also* Br. in Opp. at 22-23. This Court should not decide an issue of extraterritoriality—which by its very nature implicates important comity concerns—in a case in which it is unclear whether the infringing party even caused the claimed foreign damages.

damages in light of that decision. Before the Court addresses the issue of extraterritorial patent damages itself, it should have the benefit of the Federal Circuit's analysis on the application of *RJR Nabisco* in this context.

1. *RJR Nabisco* involved the question whether the private right of action under the Racketeer Influenced and Corrupt Organizations Act (RICO), 18 U.S.C. § 1964(c), provides redress for injuries suffered outside the territorial jurisdiction of the United States. *See* 136 S. Ct. at 2099. One provision of RICO imposes liability for certain "racketeering activity," *see* 18 U.S.C. § 1962, while another provides a private cause of action to "[a]ny person injured in his business or property by reason of a violation of section 1962," 18 U.S.C. § 1964(c). *See RJR Nabisco*, 136 S. Ct. at 2096-97. Because of RICO's statutory structure, the question whether RICO applied to injuries suffered abroad "really involved two questions": first, whether "RICO's substantive prohibitions, contained in § 1962, appl[ied] to conduct that occurs in foreign countries," and second, whether "RICO's private right of action, contained in § 1964(c), appl[ied] to injuries that are suffered in foreign countries." *RJR Nabisco*, 136 S. Ct. at 2096, 2099.

The Court answered the first question "sometimes" and the second question "no." Some forms of liability under § 1962 do extend to acts in foreign countries, the Court concluded, but "[n]othing" in § 1964(c) "provide[d] a clear indication that Congress intended to create a private right of action for injuries suffered outside of the United States." *RJR Nabisco*, 136 S. Ct. at 2108. Accordingly, RICO's private right of action "d[id] not overcome the presumption against extraterritoriality," even though

some of RICO's substantive provisions did. *See id.* at 2106.

The Court also concluded that a private right of action could reach foreign activity if "the case involve[d] a domestic application of the statute"—that is, if the plaintiff sought compensation for domestic injuries. *RJR Nabisco*, 136 S. Ct. at 2101. But because the plaintiffs' claims admittedly "rest[ed] entirely on injury suffered abroad," they had no cause of action. *Id.* at 2111.

2. *RJR Nabisco* is directly relevant to this case. The Patent Act provides for liability and damages in separate provisions. Section 271 imposes liability for patent infringement, and § 284 permits a patent holder injured by infringement to recover damages. The question is how the presumption against extraterritoriality applies to those provisions. *RJR Nabisco* thus applies to this case in two ways: first, in determining whether to analyze the extraterritorial effect of §§ 271(f) and 284 separately, and second, in determining whether this case involves a "domestic application" of § 284.

The Federal Circuit has not had the opportunity to decide whether (and, if so, how) *RJR Nabisco* affects its analysis of § 284's extraterritorial effect. The Federal Circuit's initial decision in this case predated *RJR Nabisco*. *See* Pet. App. 23a. And when this Court vacated the initial decision below and remanded for reconsideration in light of *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016), the Federal Circuit believed that it lacked the authority to address the extraterritoriality question anew on remand. *See* Pet. App. 4a n.1. Nor has the Federal Circuit addressed the question in another

case since *RJR Nabisco*. Consistent with this Court's familiar role as "a court of review, not of first view," *McLane Co. v. EEOC*, 137 S. Ct. 1159, 1170 (2017) (citation omitted), the Court should give the Federal Circuit the first opportunity to reconsider its analysis in light of *RJR Nabisco*, rather than applying the *RJR Nabisco* framework itself in the first instance.

Given its recent vintage, other courts of appeals are only now starting to apply *RJR Nabisco*'s extraterritoriality framework in other contexts. *See, e.g.*, *Bascuñán v. Elsaca*, 874 F.3d 806 (2d Cir. 2017). At a minimum, awaiting further percolation on extraterritoriality issues more generally may better focus the Court's analysis when it considers the availability of extraterritorial patent damages.

IV. The Predicate-Act Doctrine in Copyright Law Does Not Provide a Valid Reason for the Court To Grant Review

Finally, the government cites several copyright decisions that it asserts are in "tension" with the decision below. *See* U.S. Br. at 19-20. Those decisions do not provide any additional reason to grant the petition.

The decisions the government cites (all of which were issued before *RJR Nabisco*) concern the so-called predicate-act doctrine in copyright law. This Court has never addressed the validity of that doctrine, and it would be unusual for the Court to do so for the first time in a patent case. A copyright doctrine that this Court has never endorsed, and that may not be good law even in the copyright context, should not be the basis for granting certiorari in a patent case.

Drawing the predicate-act doctrine into this case further complicates an already complex question. For example, the Ninth Circuit has held that the predicate-act doctrine allows a copyright owner to recover only *the infringer's profits*, not "actual damages . . . for acts of infringement that mostly occurred outside the United States." *L.A. News Serv. v. Reuters Television Int'l Ltd.*, 340 F.3d 926, 927, 931-32 (9th Cir. 2003), *cert. denied*, 541 U.S. 1041 (2004). It based that holding on a Second Circuit decision establishing the predicate-act doctrine based on the concept of a constructive trust. *See Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52 (2d Cir. 1939). Whether that doctrine has any analogue in patent law, however, is far from clear—especially given the "particular force" the presumption against extraterritoriality carries under the Patent Act. *Microsoft*, 550 U.S. at 454-55.

Resolving this case based on the predicate-act doctrine would thus require the Court to resolve at least two thorny additional antecedent questions—whether the doctrine is valid, and whether it applies to patent law. That too counsels in favor of waiting to address the question presented in a simpler case—one that arises outside the context of § 271(f) and one that takes into account this Court's decision in *RJR Nabisco*. Especially in the highly irregular circumstances presented here—where the government, in response to a call for the views of the Solicitor General, proposes a quite different question and approach from the one proposed by petitioner—the more prudent course is to deny review and to await a better vehicle.

CONCLUSION

For the foregoing reasons, as well as the reasons already stated in the brief in opposition, WesternGeco's petition for writ of certiorari should be denied.

DECEMBER 20, 2017

Respectfully submitted,

JUSTIN M. BARNES
TROUTMAN SANDERS LLP
11682 El Camino Real,
Suite 400
San Diego, California 92130
(858) 509-6000

DANIELLE J. HEALEY
Counsel of Record
BRIAN G. STRAND
BAILEY K. HARRIS
FISH & RICHARDSON P.C.
1221 McKinney Street,
Suite 2800
Houston, TX 77010
(713) 654-5300
healey@fr.com

Attorneys for Respondent

No. 16-1011

In the Supreme Court of the United States

WESTERNGECO LLC, PETITIONER

v.

ION GEOPHYSICAL CORPORATION

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE SUPPORTING PETITIONER

NOEL J. FRANCISCO
Solicitor General
Counsel of Record
CHAD A. READLER
Acting Assistant Attorney General
MALCOLM L. STEWART
Deputy Solicitor General
ZACHARY D. TRIPP
Assistant to the Solicitor General
MARK R. FREEMAN
JOSEPH F. BUSA
Attorneys

Department of Justice
Washington, D.C. 20530-0001
SupremeCtBriefs@usdoj.gov
(202) 514-2217

QUESTION PRESENTED

The Patent Act of 1952, 35 U.S.C. 1 *et seq.*, provides that, when a patent owner prevails in an infringement action, "the court shall award the claimant damages adequate to compensate for the infringement." 35 U.S.C. 284. An award of actual damages can include lost profits that the patent owner would have earned absent the infringement. *Yale Lock Mfg. Co.* v. *Sargent*, 117 U.S. 536, 552-553 (1886). The question presented is as follows:

Whether a patent owner that has proved a domestic act of patent infringement may recover lost profits that the patentee would have earned outside the United States if that domestic infringement had not occurred.

TABLE OF CONTENTS

Page

Interest of the United States 1
Statement 2
Summary of the argument 6
Argument:
Petitioner may recover the profits that it would have earned by performing surveys on the high seas if respondent had not infringed its patent 10
A. Whether a compensatory-damages award is "adequate" depends on how much profit the infringement caused the patentee to lose, not where the patentee would have earned that profit 10
B. Judicial precedent and the statutory context confirm that the Patent Act allows recovery of profits that petitioner would have earned abroad absent the domestic infringement 16
C. The presumption against extraterritorial application of U.S. law does not justify the court of appeals' refusal to allow recovery of profits that petitioner would have earned on the high seas if respondent had not infringed its patent 23
Conclusion 33

TABLE OF AUTHORITIES

Cases:

Adriance, Platt & Co. v. *McCormick Harvesting Mach. Co.*, 55 F. 288 (C.C.N.D. Ill.), aff'd, 56 F. 918 (7th Cir. 1893) 19
Albemarle Paper Co. v. *Moody*, 422 U.S. 405 (1975) 5
Aro Mfg. Co. v. *Convertible Top Replacement Co.*, 377 U.S. 476 (1964) 3, 11, 17
Brown v. *Duchesne*, 60 U.S. (19 How.) 183 (1857) 6, 8, 16, 17

Cases—Continued: Page

Bullock Elec. & Mfg. Co. v. *Westinghouse Elec. & Mfg. Co.*, 129 F. 105 (6th Cir.), cert. denied, 194 U.S. 636 (1904) 19
Carnegie Mellon Univ. v. *Marvell Tech. Grp., Ltd.*, 807 F.3d 1283 (Fed. Cir. 2015) 23
Clark v. *Martinez*, 543 U.S. 371 (2005) 30
Deepsouth Packing Co. v. *Laitram Corp.*, 406 U.S. 518 (1972) 22
Dorsey Revolving Harvester Rake Co. v. *Bradley Mfg. Co.*, 7 F. Cas. 946 (C.C.N.D.N.Y. 1874) 19, 20
Dowagiac Mfg. Co. v. *Minnesota Moline Plow Co.*, 235 U.S. 641 (1915) 6, 8, 16, 17, 18
EEOC v. *Arabian Am. Oil Co.*, 499 U.S. 244 (1991) 24
F. Hoffmann-La Roche Ltd. v. *Empagran S. A.*, 542 U.S. 155 (2004) 24
Fishel v. *Lueckel*, 53 F. 499 (C.C.S.D.N.Y. 1892) 21
General Motors Corp. v. *Devex Corp.*, 461 U.S. 648 (1983) ..... *passim*
Halo Elecs., Inc. v. *Pulse Elecs., Inc.*, 136 S. Ct. 1923 (2016) 6
Impression Prods., Inc. v. *Lexmark Int'l, Inc.*, 137 S. Ct. 1523 (2017) 26, 27
Jennings v. *Rodriguez*, No. 15-1204 (Feb. 27, 2018) 32
K. W. Ignition Co. v. *Temco Elec. Motor Co.*, 283 F. 873 (6th Cir. 1922), cert. denied, 260 U.S. 746 (1923) 8, 19
Ketchum Harvester Co. v. *Johnson Harvester Co.*, 8 F. 586 (C.C.N.D.N.Y. 1881) 18, 19, 21
Kiobel v. *Royal Dutch Petrol. Co.*, 569 U.S. 108 (2013) 24
Kirtsaeng v. *John Wiley & Sons, Inc.*, 568 U.S. 519 (2013) 27

Cases—Continued: Page

Life Techs. Corp. v. *Promega Corp.*, 137 S. Ct. 734 (2017) 2, 22
Los Angeles News Serv. v. *Reuters Television Int'l, Ltd.*, 149 F.3d 987 (9th Cir. 1998), cert. denied, 525 U.S. 1141 (1999) 20
Lucent Techs., Inc. v. *Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009), cert. denied, 560 U.S. 935 (2010) 3
Manufacturing Co. v. *Cowing*, 105 U.S. 253 (1882) 6, 8, 16, 17
Microsoft Corp. v. *AT&T Corp.*, 550 U.S. 437 (2007) 23
Morrison v. *National Australia Bank Ltd.*, 561 U.S. 247 (2010) 27, 30, 31
Panduit Corp. v. *Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152 (6th Cir. 1978) 3
Pearson v. *Callahan*, 555 U.S. 223 (2009) 25
Power Integrations, Inc. v. *Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013), cert. denied, 134 S. Ct. 900 (2014) 5
Rite-Hite Corp. v. *Kelley Co.*, 56 F.3d 1538 (Fed. Cir.), cert. denied, 516 U.S. 867 (1995) 11
RJR Nabisco, Inc. v. *European Cmty.*, 136 S. Ct. 2090 (2016) ..... *passim*
Schillinger v. *United States*, 155 U.S. 163 (1894) 10
Seymour v. *McCormick*, 57 U.S. (16 How.) 480 (1854) 3, 11, 13, 15
Seymour v. *Osborne*, 78 U.S. (11 Wall.) 516 (1871) 26
Sheldon v. *Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir.), cert. denied, 308 U.S. 617 (1939), and aff'd, 309 U.S. 390 (1940) 8, 21
Smith v. *United States*, 507 U.S. 197 (1993) 23
Sony Corp. of Am. v. *Universal City Studios, Inc.*, 464 U.S. 417 (1984) 20

Cases—Continued: Page

Tire Eng'g & Distrib., LLC v. *Shandong Linglong Rubber Co.*, 682 F.3d 292 (4th Cir. 2012), cert. denied, 568 U.S. 1087 (2013) 20
Update Art, Inc. v. *Modiin Publ'g, Ltd.*, 843 F.2d 67 (2d Cir. 1988) 20
Wicker v. *Hoppock*, 73 U.S. (6 Wall.) 94 (1867) 7, 10, 11
Wisconsin v. *Mitchell*, 508 U.S. 476 (1993) 27
Yale Lock Mfg. Co. v. *Sargent*, 117 U.S. 536 (1886) 3, 11

Statues:

Patent Act of 1952, 35 U.S.C. 1 *et seq.* 2
35 U.S.C. 102(a) 26
35 U.S.C. 154(a)(1) 25, 33
35 U.S.C. 271 23
35 U.S.C. 271(a) 2, 5, 13, 22, 25
35 U.S.C. 271(f) ..... *passim*
35 U.S.C. 271(f)(1) 2
35 U.S.C. 271(f)(2) 2
35 U.S.C. 281 ..... 2, 9, 30
35 U.S.C. 284 ..... *passim*
Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. 1961 *et seq.*:
18 U.S.C. 1962 28
18 U.S.C. 1964(c) 9, 10, 28, 29, 30
15 U.S.C. 78j(b) 31
17 U.S.C. 504(b) 20
Black's Law Dictionary (10th ed. 2014) 33
7 Donald S. Chisum, *Chisum on Patents* (2011) 11
1 Dan B. Dobbs et al., *Law of Torts* (2d ed. 2011) 12
Miguel A. Emery, *Argentina*, in *International Copyright Law and Practice* (Lionel Bently ed. 2016) 21

Miscellaneous—Continued: Page

H.R. Rep. No. 1587, 79th Cong., 2d Sess. (1946) 3
W. Page Keeton et al., *Prosser and Keeton on the Law of Torts* (5th ed. 1984) 12, 15
Rita Matulionyte, *Law Applicable to Copyright: A Comparison of the ALI and CLIP Proposals* (2011) 21
Restatement (Second) of Torts:
(1965) 11, 15
(1979) 11, 12, 13
3 William C. Robinson, *Law of Patents for Useful Inventions* (1890) 12, 19

In the Supreme Court of the United States

No. 16-1011

WESTERNGECO LLC, PETITIONER

v.

ION GEOPHYSICAL CORPORATION

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE SUPPORTING PETITIONER

INTEREST OF THE UNITED STATES

This case presents the question whether the owner of a U.S. patent that was infringed within the United States may recover as damages the profits that the U.S. patentee would have earned on the high seas if the infringement had not occurred. The United States has a substantial interest in the resolution of that question, since it concerns the measure of recovery for infringing a patent issued by the United States Patent and Trademark Office, and analogous compensatory-damages issues have arisen under the copyright laws. See pp. 20-21, *infra*. The government also has a broader interest in the proper application of the presumption against extraterritorial application of U.S. law. At the invitation of the Court, the United States filed a brief as amicus curiae at the petition stage of this case.

STATEMENT

1. The Patent Act of 1952 (Patent Act), 35 U.S.C. 1 *et seq.*, provides that "whoever without authority makes, uses, * * * or sells any patented invention, *within the United States* * * * , infringes the patent." 35 U.S.C. 271(a) (emphasis added). Under the Patent Act, it is also infringement to supply "in or from the United States" (1) "all or a substantial portion of the components of a patented invention * * * in such manner as to actively induce the combination of such components outside of the United States"; or (2) "any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, * * * intending that such component will be combined outside of the United States." 35 U.S.C. 271(f)(1) and (2); see *Life Techs. Corp.* v. *Promega Corp.*, 137 S. Ct. 734, 739-742 (2017).

To enforce the exclusive rights granted by a U.S. patent, "[a] patentee shall have remedy by civil action for infringement of his patent." 35 U.S.C. 281. When a patentee prevails in an infringement suit, "the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. 284.

Compensatory damages are "adequate," within the meaning of Section 284, when they "ensure that the patent owner is placed in as good a position as he would have been in" absent the infringement. *General Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 655 (1983); see *id.* at 654-655 ("Congress sought to ensure that the patent owner would in fact receive full compensation for 'any damages' he suffered as a result of the infringement.")

(quoting H.R. Rep. No. 1587, 79th Cong., 2d Sess. 1 (1946)). Accordingly, damages for infringement may include lost profits that the patentee would have earned absent the defendant's infringing conduct. See *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964); *Yale Lock Mfg. Co.* v. *Sargent*, 117 U.S. 536, 552-553 (1886); *Seymour* v. *McCormick*, 57 U.S. (16 How.) 480, 490 (1854) ("What a patentee 'would have made, if the infringer had not interfered with his rights.'").

The damages award in a successful suit for patent infringement shall "in no event [be] less than a reasonable royalty." 35 U.S.C. 284. Courts have traditionally calculated a reasonable royalty by determining what royalty the patent owner and infringer would have agreed to in a hypothetical licensing negotiation. See, *e.g.*, *Lucent Techs., Inc.* v. *Gateway, Inc.*, 580 F.3d 1301, 1324-1325 (Fed. Cir. 2009), cert. denied, 560 U.S. 935 (2010); *Panduit Corp.* v. *Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1159 (6th Cir. 1978).

2. Petitioner owns four patents relating to marine seismic surveys, which are used to search for oil and gas beneath the ocean floor. Pet. App. 24a, 79a-80a. To conduct a marine seismic survey, a ship typically tows an array of sensors attached to cables, called "streamers," that detect soundwaves reflected off the ocean floor. *Id.* at 24a-25a. The information obtained is used to create maps of the subsurface geology. *Id.* at 25a. Petitioner's U.S. patents cover a system for controlling the movement of the streamers to produce more efficient surveys and higher-quality data. *Id.* at 25a, 79a-80a. Rather than sell or license this system to others, petitioner manufactures it domestically, then performs seismic

surveys on the high seas using the system, and earns fees for performing those services. *Id.* at 25a, 40a.

Respondent manufactures components of a marine-seismic-survey system that, when assembled, embodies petitioner's patented invention. Pet. App. 40a. As relevant here, respondent manufactured components of that system in the United States and exported them to customers for assembly abroad. *Ibid.* Respondent's customers abroad then assembled the completed system and used it to perform surveys on the high seas in competition with petitioner. *Ibid.*

3. In 2009, petitioner sued respondent for patent infringement under Section 271(f). Pet. App. 25a. A jury found that respondent had infringed six different claims from petitioner's four patents. *Id.* at 26a-27a. With respect to the calculation of damages, petitioner introduced evidence that it would have earned more than $90 million in profits on ten specific survey contracts that it had lost to respondent's customers because of respondent's domestic infringement. See *id.* at 40a-41a. The jury awarded petitioner $12.5 million in royalties and $93.4 million in lost profits. *Id.* at 175a.

Respondent moved to vacate the lost-profits award. Pet. App. 116a. Respondent argued that it "would give improper extraterritorial effect to U.S. law" to compensate petitioner for profits that it had lost as a result of respondent's customers "making" or "using" the survey system abroad. *Ibid.* The district court denied the motion, concluding that lost-profits damages were appropriate to compensate petitioner for the harm caused by respondent's domestic infringement. *Id.* at 117a-118a.

4. The court of appeals affirmed the jury's verdict of infringement, but a divided panel reversed the award of lost profits. Pet. App. 23a-53a.

a. The court of appeals observed that the contracts that petitioner had lost were for performing seismic surveys "on the high seas, outside the jurisdictional reach of U.S. patent law." Pet. App. 41a. The court concluded that awarding lost profits for those contracts would contravene the presumption against the extraterritorial application of U.S. law. *Id.* at 41a-45a.

The court of appeals interpreted circuit precedent involving infringement under 35 U.S.C. 271(a) to hold that "the export of a finished product cannot create liability for extraterritorial use of that product." Pet. App. 42a; see *Power Integrations, Inc.* v. *Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348, 1371-1372 (Fed. Cir. 2013), cert. denied, 134 S. Ct. 900 (2014). The court declined to apply a different rule for damages under Section 271(f). The court stated that, "[j]ust as the United States seller or exporter of a final product cannot be liable for use abroad, so too the United States exporter of the component parts cannot be liable for use of the infringing article abroad." Pet. App. 45a.

b. Judge Wallach dissented from the lost-profits holding. Pet. App. 54a-75a. He agreed that "patent rights granted by the United States are geographically limited." *Id.* at 54a. He explained, however, that the question presented involved "the proper measure of damages *given* a finding of liability" for domestic infringement. *Id.* at 70a. As to that question, Judge Wallach concluded that, under ordinary common-law damages principles, lost profits should be recoverable to put petitioner, "as near as may be, in the situation [it] would have occupied if the wrong had not been committed." *Id.* at 57a (quoting *Albemarle Paper Co.* v. *Moody*, 422 U.S. 405, 418-419 (1975)). He also viewed an award of

lost profits in these circumstances as consistent with decisions in which this Court has approved the use of "non-infringing foreign sales to calculate lost profits where the patented product [wa]s manufactured in the United States." *Ibid.*; see *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.*, 235 U.S. 641 (1915); *Manufacturing Co.* v. *Cowing*, 105 U.S. 253 (1882); *Brown* v. *Duchesne*, 60 U.S. (19 How.) 183 (1857).

5. The court of appeals denied rehearing en banc. Pet. App. 176a-177a. Judge Wallach, joined by Judges Newman and Reyna, dissented for the reasons expressed in Judge Wallach's dissent from the panel decision. *Id.* at 178a-180a.

6. Petitioner sought review in this Court of both the court of appeals' lost-profits holding and its resolution of petitioner's unrelated request for enhanced damages. The Court granted that petition for a writ of certiorari, vacated the court of appeals' judgment, and remanded for reconsideration in light of *Halo Electronics, Inc.* v. *Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016). See 136 S. Ct. 2486. On remand, the court of appeals declined to reconsider its lost-profits analysis, Pet. App. 4a n.1, and Judge Wallach renewed his dissent, *id.* at 13a-22a.

SUMMARY OF THE ARGUMENT

The court below held that the U.S. patentee could recover some but not all of the profits that it would have earned but for respondent's domestic infringement of its U.S. patent. Relying on the presumption against extraterritorial application of U.S. law, the court construed 35 U.S.C. 284 not to authorize recovery of profits that petitioner would have earned on the high seas. That holding is inconsistent with the text and purpose of Section 284.

In cases where domestic infringement prevents the U.S. patentee from realizing profits that it would otherwise have earned abroad, the court of appeals' approach ensures that the damages award will *not* be "adequate to compensate" the patentee for all the losses it suffered because of that domestic infringement. 35 U.S.C. 284. That rule systematically undercompensates U.S. patent owners for infringement when the patent owner derives profits from cross-border commerce. It is at odds with common-law principles and this Court's precedents, and it is not required by the presumption against extraterritoriality. The judgment below should be reversed.

A. The general common-law rule for compensatory damages is that an "injured party is to be placed, as near as may be, in the situation he would have occupied if the wrong had not been committed." *Wicker* v. *Hoppock*, 73 U.S. (6 Wall.) 94, 99 (1867). Consistent with that common-law principle, this Court has long held that damages are "adequate to compensate" for infringement, 35 U.S.C. 284, when they restore the U.S. patentee to "as good a position as he would have been in" if infringement had not occurred. *General Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 655 (1983). Traditional principles of proximate causation may limit the availability or extent of compensatory damages in any given case. Here, however, a jury found that petitioner would have earned approximately $90 million on ten specific contracts if respondent had not infringed its U.S. patent. The court of appeals did not dispute that petitioner had proved the requisite causal link between the infringement and petitioner's failure to obtain those contracts. As the case comes to this Court, including those profits in the damages award is thus necessary to

place petitioner in the "position * * * [it] would have been in" absent the infringement. *Ibid.*

There is no sound basis for excluding profits that petitioner would have earned on the high seas as an element of compensable harm. In order for those lost profits to be compensable, petitioner was required to prove that respondent's domestic infringement of petitioner's U.S. patent caused economic loss to petitioner. But once that showing was made, the relevant question was *how much* profit petitioner had lost as a proximate result of respondent's wrongful conduct, not *where* petitioner would have earned those profits in a hypothetical world if the domestic infringement had not occurred.

B. This Court has stated three times, albeit in dicta, that the Patent Act permits recovery for harms occurring abroad as the result of domestic infringement. See *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.*, 235 U.S. 641 (1915); *Manufacturing Co.* v. *Cowing*, 105 U.S. 253 (1882); *Brown* v. *Duchesne*, 60 U.S. (19 How.) 183 (1857). Lower courts, relying on these precedents, have held that recovery for foreign harms arising from domestic infringement is permitted both under the Patent Act, *e.g.*, *K. W. Ignition Co.* v. *Temco Elec. Motor Co.*, 283 F. 873, 879 (6th Cir. 1922), cert. denied, 260 U.S. 746 (1923), and the Copyright Act, *e.g.*, *Sheldon* v. *Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52 (2d Cir.), cert. denied, 308 U.S. 617 (1939), and aff'd, 309 U.S. 390 (1940). Under those longstanding principles, petitioner is entitled to recover the profits that it would have earned on the high seas if respondent had not infringed its U.S. patent, thereby restoring petitioner to the position it would have occupied but for that wrongful conduct.

C. The court of appeals' decision reflects a misapplication of the presumption against extraterritorial application of U.S. law. This case does not involve regulation of foreign conduct. Respondent infringed petitioner's U.S. patent through conduct inside the United States (specifically, supplying in or from the United States components of petitioner's invention for assembly abroad). The Patent Act gives every U.S. patentee a cause of action for infringement, 35 U.S.C. 281, and it provides that "the court shall award the claimant damages adequate to compensate for the infringement" if the suit is successful, 35 U.S.C. 284.

Providing a complete remedy for infringement committed within the United States involves a domestic application of U.S. law, even when a court considers evidence of foreign events or conduct when calculating damages. Courts can and regularly do take account of foreign events, such as publications constituting prior art, when determining whether particular acts within the United States give rise to liability for infringement. Courts can similarly consider evidence of profits that would have been earned abroad when determining the magnitude of harm that domestic patent infringement has caused to a U.S. patentee. Considering such evidence does not regulate foreign conduct or significantly implicate the concerns that underlie the presumption against extraterritoriality.

This Court's decision in *RJR Nabisco, Inc.* v. *European Community*, 136 S. Ct. 2090 (2016), does not require a contrary result. The Court in *RJR Nabisco* held that the private cause of action under the Racketeer Influenced and Corrupt Organizations Act (RICO), 18 U.S.C. 1964(c), was not available to persons who suffer foreign injuries. Unlike RICO, however, the Patent

Act's substantive provisions do not apply abroad, and instead reach only infringing acts occurring wholly within the United States. And while Section 1964(c) defines the class of plaintiffs who can assert a private cause of action, Section 284 does not address any plaintiff's right to sue, but defines the relief that should be awarded after the plaintiff has sued and proved infringement. In addition, whereas RICO's substantive provisions incorporate federal criminal laws that protect the general public, patent infringement is a violation of rights specific to the patentee. Every act of infringement therefore causes the patent holder a distinct legal injury within the United States, even where some consequences of that injury are experienced abroad.

ARGUMENT

PETITIONER MAY RECOVER THE PROFITS THAT IT WOULD HAVE EARNED BY PERFORMING SURVEYS ON THE HIGH SEAS IF RESPONDENT HAD NOT INFRINGED ITS PATENT

A. Whether A Compensatory-Damages Award Is "Adequate" Depends On How Much Profit The Infringement Caused The Patentee To Lose, Not Where The Patentee Would Have Earned That Profit

1. When a U.S. patentee proves that its patent was infringed, the patentee may recover damages "adequate to compensate for the infringement." 35 U.S.C. 284. Patent infringement is a species of tort. *E.g.*, *Schillinger* v. *United States*, 155 U.S. 163, 169-170 (1894). And the "general rule" at common law is that damages are adequate to compensate for a wrong when the compensation is "equal to the injury." *Wicker* v. *Hoppock*, 73 U.S. (6 Wall.) 94, 99 (1867). "The injured party is to be placed, as near as may be, in the situation he would

have occupied if the wrong had not been committed." *Ibid.*; see, *e.g.*, Restatement (Second) of Torts § 903 cmt. a, at 453-454 (1979) (Restatement) ("substantially equivalent in a pecuniary way to [the position] which [the plaintiff] would have occupied had no tort been committed").

This Court has long interpreted the Patent Act to embody that same rule, under which damages are "adequate to compensate for the infringement," 35 U.S.C. 284, when "the patent owner is placed in as good a position as he would have been in" if the patent had not been infringed. *General Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 655 (1983); see *Seymour* v. *McCormick*, 57 U.S. (16 How.) 480, 490 (1854) (similar). A patentee is entitled to recover "the difference between [its] pecuniary condition after the infringement, and what [its] condition would have been if the infringement had not occurred." *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964) (quoting *Yale Lock Mfg. Co.* v. *Sargent*, 117 U.S. 536, 552 (1886)); see 7 Donald S. Chisum, *Chisum on Patents* § 20.01 (2011) ("the best approximation of the amount necessary to restore the owner to the financial position he would have enjoyed had the infringer not engaged in unauthorized acts in violation of the owner's exclusive patent rights").

Consistent with the general common-law rule governing tort damages, see Restatement § 906 cmt. a (1979); *id.* §§ 430-453 (1965), recovery of lost profits under Section 284 is limited by familiar principles of proximate causation. See *Rite-Hite Corp.* v. *Kelley Co.*, 56 F.3d 1538, 1546 (Fed. Cir.) (en banc), cert. denied, 516 U.S. 867 (1995); *id.* at 1558-1560 (Nies, J., dissenting in part) (agreeing that proximate cause limits recovery);

see also 3 William C. Robinson, *Law of Patents for Useful Inventions* § 1053, at 321 n.3 (1890) (Robinson) (noting that "remote consequential damages cannot be recovered"). Although Section 284 provides for compensatory damages that restore the patentee's lost profits, it does not permit recovery for losses that are too remotely or indirectly tied to the acts that infringed the U.S. patent.

2. By its nature, the identification of an appropriate compensatory-damages award depends on *how much* the plaintiff was harmed by the defendant's wrongful conduct. To measure the extent of the loss, the plaintiff proffers evidence of its actual position after the wrong, and evidence of the position that it would have occupied if the wrong had not occurred; the difference between the two is the amount of damages. *E.g.*, Restatement §§ 903, 912 & cmt. d (1979). It is irrelevant to the calculation of actual damages, however, *where* the plaintiff would have earned profits if the defendant had not committed the tort. Although "[r]emoteness in time or space may give rise to the likelihood that the other intervening causes have taken over the responsibility," when "causation is found, and other factors are eliminated, it is not easy to discover any merit whatever in the contention that such physical remoteness should of itself bar recovery." W. Page Keeton et al., *Prosser and Keeton on the Law of Torts* § 43, at 282-283 (5th ed. 1984) (*Prosser & Keeton*); see 1 Dan B. Dobbs et al., *Law of Torts* § 208 (2d ed. 2011) (an injury is not too remote "merely because time or distance separates the defendant's act from the plaintiff's harm") (footnotes omitted).

After stating the general rule that compensatory damages should restore the plaintiff to the position that it would have occupied but for the wrongful conduct, the

Restatement identifies several circumstances in which compensatory damages may be reduced, *id.* §§ 918-923 (1979), such as when the plaintiff "could have avoided" the harm "by the use of reasonable effort" after the tort, *id.* § 918. But the Restatement does not suggest that the amount of recovery depends on *where* the plaintiff would have earned profits if the tort had not occurred. Accordingly, a foreign tourist negligently injured in a car crash in the United States may receive full compensation from the tortfeasor, including for lost wages the tourist would have earned in his home country. The fact that the wages would have been earned abroad would not prevent the defendant's domestic negligence from being treated as the proximate cause of their loss.

3. Calculation of lost profits under the Patent Act similarly depends on how much profit the U.S. patentee lost because of the domestic infringement, not the place where the patentee would have earned profits if its U.S. patent had not been infringed. In calculating damages for patent infringement, a court may consider whether and how the patentee earned profits by selling or using the patented invention, and the extent to which the infringement interfered with that business. *E.g.*, *Seymour*, 57 U.S. (16 How.) at 489. When domestic infringement causes the patentee to lose profits it otherwise would have earned outside the United States, damages are "adequate to compensate for the infringement"—*i.e.*, they place the patentee in the position it would have occupied if the infringement had not occurred, *e.g.*, *General Motors*, 471 U.S. at 655—only if the award reflects that real-world economic loss.

For example, imagine that Acme Manufacturing has a U.S. patent on a device for drilling oil; it manufactures the device in the United States and earns $100 million

annually in profits from sales of the device in the Middle East. If Copycat Company made the same device in the United States and sold it in the Middle East, and thereby cut Acme's export profits in half, the unauthorized domestic manufacture would infringe the U.S. patent. See 35 U.S.C. 271(a). Although Copycat's overseas sales would not themselves be infringing, they would still be evidence of the extent to which Copycat's domestic infringement harmed Acme. In such a case, an award of damages would not be "adequate to compensate for the infringement," 35 U.S.C. 284, unless the award included the profits that Acme was unable to earn overseas because of Copycat's domestic infringement.[1]

The award would similarly be inadequate if Acme chose not to sell or license its patented device, but instead earned $100 million in profits annually by performing services using that device abroad. If Copycat infringed the patent by manufacturing the same device in the United States, and then used the device abroad to cut Acme's overseas services market in half, that domestic infringement would cause Acme to lose profits from its services market abroad. If the damages award did not reflect those losses, it would not be adequate to compensate Acme for Copycat's domestic infringement.

---

[1] The same would be true if Copycat instead infringed by supplying from the United States components of the invention with the requisite intent that the invention be assembled abroad. See 35 U.S.C. 271(f). Section 271(f)'s animating purpose is to provide for like treatment of the supply of components for assembly abroad and the manufacturing of the completed invention for export. See pp. 21-22, *infra*.

Of course, the patentee must prove that claimed losses are actually attributable to the domestic infringement. See *Seymour*, 57 U.S. (16 How.) at 489. When an act of infringement occurs inside the United States, but all of the other relevant business activity is abroad, it may be more difficult for the U.S. patentee to prove the requisite causal link. Cf. *Prosser & Keeton* § 43, at 282-283. If an infringer had a particularly effective foreign sales force, for example, the profits that the infringer actually earned abroad might be greater than the profits that the U.S. patentee would have earned abroad if the domestic infringement had not occurred. And in some cases, the link between infringement and lost profits may be too tenuous, with too many intervening or unforeseeable causes, to permit recovery under ordinary principles of proximate causation. See generally Restatement §§ 430-453 (1965).

In this case, however, the court of appeals did not question whether respondent's infringement under Section 271(f) caused petitioner's loss of profits from ten specific contracts to perform marine seismic surveys. See Pet. App. 67a, 175a. Rather, the court applied a categorical rule precluding an award of patent-infringement damages for profits that would have been earned outside the United States. See *id.* at 44a-45a. As the case comes to this Court, the award of lost profits is therefore necessary to restore petitioner to the "position * * * [it] would have been in" absent the infringement. *General Motors*, 461 U.S. at 655.

B. Judicial Precedent And The Statutory Context Confirm That The Patent Act Allows Recovery Of Profits That Petitioner Would Have Earned Abroad Absent The Domestic Infringement

1. This Court's decisions confirm that damages are "adequate to compensate for the infringement," 35 U.S.C. 284, only if they encompass all the profits the patentee lost because of the infringement, including profits the patentee would have earned abroad. In three cases, the Court has addressed the ability of U.S. patentees to recover for foreign harms attributable to domestic acts of patent infringement. See *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.*, 235 U.S. 641 (1915); *Manufacturing Co.* v. *Cowing*, 105 U.S. 253 (1882); *Brown* v. *Duchesne*, 60 U.S. (19 How.) 183 (1857). Although the Court has not squarely resolved the question presented here, the Court has consistently suggested in dicta that damages for foreign injuries may be awarded in order to fully compensate the patentee for the harms caused by domestic infringement.

In *Duchesne*, this Court denied compensation to a plaintiff whose patented invention was installed on a foreign vessel abroad before the vessel entered U.S. waters on a transitory commercial voyage. The Court explained that the use of the device "outside of the jurisdiction of the United States" was not an infringement of the patent holder's rights, and that the foreign vessel "could hardly be said to use [the invention] while she was at anchor in the port, or lay at the wharf" within the United States. 60 U.S. (19 How.) at 195-196. The Court stated, however, that the outcome would have been different if the device had been "manufactured on [the vessel's] deck while she was lying in the port" in-

side the United States. *Id.* at 196. In those circumstances, the Court stated, the defendant would have committed domestic infringement, and the patent owner would have been entitled to recover "for the injury he sustained, and the benefit and advantage which he (the defendant) derived from the invention,"[2] even though "[t]he chief and almost only advantage which [he] derived from the use of this improvement was on the high seas." *Ibid.*

In *Manufacturing Co.*, the Court affirmed a U.S. patentee's recovery of profits that it would have earned from sales to both domestic and foreign customers. In that case, the patentee manufactured pumps in the United States for sale and use in the oil-drilling regions of Canada and Pennsylvania. 105 U.S. at 254, 256. Although the Court did not specifically address the foreign nature of the Canadian sales, it held that the patent owner was entitled to recover the infringer's full profits on all the sales, without distinguishing between the infringer's profits from sales in Canada and Pennsylvania. *Ibid.*

In *Dowagiac Manufacturing*, the Court again suggested that damages for domestic infringement may include compensation for lost sales abroad. A plaintiff who held a patent on plow technology sued a U.S.-based manufacturer of infringing plows, as well as wholesalers who had sold the plows in the United States and Canada. 235 U.S. at 643, 650. The manufacturer settled, and the wholesalers were ordered to pay nominal damages. *Id.* at 643. This Court reversed the damages award and remanded on unrelated grounds. *Id.* at 651.

---

[2] Until 1946, the Patent Act provided for disgorgement of the infringer's profits. *Aro Mfg.*, 377 U.S. at 505-506.

But the Court instructed that, on remand, the wholesalers could not be required to pay damages for their sales in Canada because the wholesalers' own acts with regard to the plows at issue had been "wholly done in a foreign country." *Id.* at 650.

Particularly relevant for present purposes, the Court in *Dowagiac Manufacturing* distinguished *Manufacturing Co.* by noting that the defendants there had manufactured the infringing articles in the United States before the foreign sales. *Dowagiac Mfg.*, 235 U.S. at 650. Recovery for the foreign sales in *Manufacturing Co.* was appropriate, the *Dowagiac Manufacturing* Court explained, because in *Manufacturing Co.* "the defendant" itself had "made the infringing articles in the United States." *Ibid.* The wholesalers in *Dowagiac Manufacturing*, by contrast, had engaged in no similar domestic infringement linked to their sales in Canada, so damages could not be awarded for those foreign sales. *Ibid.* Thus, while the Court in *Manufacturing Co.* itself had not specifically addressed the significance of the foreign locus of some of the relevant sales, the Court in *Dowagiac Manufacturing* did address that point and confirmed that profits from foreign sales were recoverable so long as they resulted from the defendant's own domestic infringement.

2. Various lower federal courts—often relying on this Court's statements in *Dowagiac Manufacturing*—have held that an award for domestic patent infringement should encompass all profits that the U.S. patentee lost, regardless of where the patentee would have earned those profits.

a. In *Ketchum Harvester Co.* v. *Johnson Harvester Co.*, 8 F. 586 (C.C.N.D.N.Y. 1881) (Blatchford, C.J.), the court upheld an award of royalties "for each [patented]

machine * * * made in the United States for sale abroad and sold abroad." *Id.* at 586. The court stated that, "[a]lthough the patent could give no protection abroad in the sale of machines abroad, it gave protection in the United States in making machines in the United States for sale abroad." *Ibid.* The court recognized "that the sale is the fruition, and gives the profit, and that the sale is abroad, and the patent does not cover the sale abroad." *Id.* at 587. The court explained, however, that "the unlawful act of making [in the United States] is made hurtful by a sale, wherever made." *Ibid.* While recognizing that "[t]he legal damages for making and selling here may be, in some cases, greater than the legal damages for making here and selling abroad," the court stated that "to deprive the patentee of all damages for unlawful making here, because the article is sold abroad, is to deprive him of part of what his patent secures to him." *Ibid.*; see 3 Robinson § 909, at 72 n.3 (citing *Ketchum Harvester* with approval); see also, *e.g.*, *K. W. Ignition Co.* v. *Temco Elec. Motor Co.*, 283 F. 873, 879 (6th Cir. 1922) (similar, noting that the "defendants would be equally liable whether the [patented devices] were sold abroad or here, they having been manufactured in the United States"), cert. denied, 260 U.S. 746 (1923).

Courts have also enjoined the sale abroad of infringing articles manufactured in the United States. See *Bullock Elec. & Mfg. Co.* v. *Westinghouse Elec. & Mfg. Co.*, 129 F. 105, 109 (6th Cir.), cert. denied, 194 U.S. 636 (1904); *Adriance, Platt & Co.* v. *McCormick Harvesting Mach. Co.*, 55 F. 288, 292 (C.C.N.D. Ill.) (citing *Ketchum Harvester*), aff'd, 56 F. 918, 918 (7th Cir. 1893) (per curiam) (affirming "for the reasons stated in the opinion of the court below"). And in *Dorsey Revolving Harvester Rake Co.* v. *Bradley Manufacturing Co.*, 7 F. Cas.

946 (C.C.N.D.N.Y. 1874), the court explained that a U.S. patentee is "at full liberty to retain to himself the advantage and profit of competing in foreign markets, by retaining the exclusive right to make and sell for export or use in other countries; not because the monopoly includes such other countries, but because his actual monopoly does include all making and selling here, with all the advantages which are incident thereto." *Id.* at 947.

b. Courts of appeals have taken a similar approach in the analogous context of copyright infringement, where the "predicate act" doctrine allows copyright owners "to recover damages flowing from exploitation abroad of the domestic acts of infringement." *Los Angeles News Serv.* v. *Reuters Television Int'l, Ltd.*, 149 F.3d 987, 992 (9th Cir. 1998), cert. denied, 525 U.S. 1141 (1999); see Pet. App. 178a-180a (Wallach, J., dissenting) (discussing this parallel); see also, *e.g.*, *Tire Eng'g & Distrib., LLC* v. *Shandong Linglong Rubber Co.*, 682 F.3d 292, 308 (4th Cir. 2012) (per curiam), cert. denied, 568 U.S. 1087 (2013); *Update Art, Inc.* v. *Modiin Publ'g, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988); *Sheldon* v. *Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52 (2d Cir.) (L. Hand, J.), cert. denied, 308 U.S. 617 (1939), and aff'd, 309 U.S. 390 (1940).

To be sure, patent and copyright law "are not identical twins." *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984). With respect to the question presented here, however, the damages provisions of the two statutes afford no evident textual basis for adopting different rules in the two contexts. Compare 35 U.S.C. 284 (award in patent-infringement suit may include damages "adequate to compensate for the infringement"), with 17 U.S.C. 504(b) (award in cop-

yright-infringement suit may include "the actual damages suffered by [the plaintiff] as a result of the infringement"). Indeed, decisions adopting the predicate-act doctrine in copyright cases have relied in part on the patent-law precedents discussed above. The leading predicate-act decision was written by Judge Learned Hand in *Sheldon*, in which he relied on this Court's patent-law opinions in *Manufacturing Co.* and *Dowagiac Manufacturing*, *supra*. See 106 F.2d at 52. And the earlier decision in *Fishel* v. *Lueckel*, 53 F. 499 (C.C.S.D.N.Y. 1892), relied on *Ketchum Harvester*, *supra*, to hold that "[t]he act of [copyright] infringement having been committed in this country, the subsequent acts abroad are immaterial, except upon the question of damages." 53 F. at 501.

The predicate-act doctrine does not appear to have generated any significant international tension. To the contrary, some foreign courts have adopted a similar rule, allowing the holder of a copyright to recover for losses that it suffered abroad because of an act of domestic infringement. See Rita Matulionyte, *Law Applicable to Copyright: A Comparison of the ALI and CLIP Proposals* 77-78 & n.21 (2011) (discussing a case involving Hummel plates where the German Federal Supreme Court held that damages for infringement in Germany could include damages from distribution outside Germany); Miguel A. Emery, *Argentina* § 8[4][a], in *International Copyright Law and Practice* (Lionel Bently ed. 2016) (discussing a similar Argentine case involving an infringing song by Julio Iglesias).

3. The court of appeals' approach disserves Congress's purpose, in enacting Section 284, of providing full compensation for U.S. patentees whose patents are infringed. That result is unwarranted in suits involving

direct infringement under 35 U.S.C. 271(a). The likelihood of undercompensation is particularly great, however, in suits (like this one) that involve the distinct form of infringement defined by 35 U.S.C. 271(f).

Section 271(f) provides that, under specified circumstances, the supply from the United States of components of a patented invention will constitute infringement of the patent. Congress enacted Section 271(f) in response to *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972) (*Deepsouth*), in which this Court held that it was not infringement to supply from the United States all of the components of a patented invention for ready assembly abroad, because the completed invention was not "made" in the United States. *Id.* at 527-528. Section 271(f) abrogates *Deepsouth* by effectively treating the domestic supply of the components of a patented invention for assembly abroad as tantamount to the domestic manufacture of the completed invention for export. See *Life Techs. Corp.* v. *Promega Corp.*, 137 S. Ct. 734, 742-743 (2017).

Section 271(f) thus is directed at conduct that occurs within the United States but is expected to result in the foreign manufacture of a U.S.-patented invention. In cases involving that form of patent infringement, proof of the harm done to the U.S. patentee is particularly likely to involve evidence of conduct occurring outside this country. A rule precluding consideration of such evidence in calculating damages would thus be especially likely to produce undercompensation in cases involving infringement under Section 271(f).[3]

---

[3] Section 284 provides that the compensatory-damages award in a successful patent-infringement suit shall "in no event [be] less than a reasonable royalty for the use made of the invention by the

C. The Presumption Against Extraterritorial Application Of U.S. Law Does Not Justify The Court Of Appeals' Refusal To Allow Recovery Of Profits That Petitioner Would Have Earned On The High Seas If Respondent Had Not Infringed Its Patent

In holding that compensatory damages under Section 284 cannot include lost profits that petitioner would have earned on the high seas, the court of appeals relied on the presumption against extraterritorial application of U.S. law. See Pet. App. 44a-45a. The court's reliance on that presumption was unwarranted.

1. "Absent clearly expressed congressional intent to the contrary, federal laws will be construed to have only domestic application." *RJR Nabisco, Inc.* v. *European Cmty.*, 136 S. Ct. 2090, 2100 (2016); see *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 456 (2007) (applying that presumption to 35 U.S.C. 271). That interpretive canon reflects the "commonsense notion that Congress generally legislates with domestic concerns in mind." *RJR Nabisco*, 136 S. Ct. at 2100 (quoting *Smith* v. *United States*, 507 U.S. 197, 204 n.5 (1993)). It also "protect[s] against unintended clashes between our laws and those

---

infringer." 35 U.S.C. 284. Although no question concerning the calculation of a "reasonable royalty" is presented here, the court of appeals' approach has potential implications for that aspect of Section 284 as well. A "reasonable royalty" typically is the royalty that the patentee and infringer would have agreed to in a hypothetical licensing negotiation. See p. 3, *supra*. The amount that an infringer would be willing to pay for a license will depend in part on the extent to which the infringer could profit from the infringing conduct. If that determination must ignore the infringer's potential to earn profits outside the United States, the amount of the appropriate royalty may be significantly reduced. Cf. *Carnegie Mellon Univ.* v. *Marvell Tech. Grp., Ltd.*, 807 F.3d 1283, 1306 (Fed. Cir. 2015).

of other nations which could result in international discord," *EEOC* v. *Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991), and avoids "creat[ing] a potential for international friction," *RJR Nabisco*, 136 S. Ct. at 2106.

Reflecting those concerns, the presumption is "typically" applied "to discern whether an Act of Congress regulating conduct applies abroad." *Kiobel* v. *Royal Dutch Petrol. Co.*, 569 U.S. 108, 116 (2013). This Court has also applied the presumption when deciding which plaintiffs may invoke a private cause of action for violation of a federal statute that regulates foreign conduct. See *RJR Nabisco*, 136 S. Ct. at 2106; *F. Hoffmann-La Roche Ltd.* v. *Empagran S. A.*, 542 U.S. 155, 167 (2004). In doing so, this Court has recognized that "providing a private civil remedy for foreign conduct creates a potential for international friction beyond that presented by merely applying U.S. substantive law to that foreign conduct." *RJR Nabisco*, 136 S. Ct. at 2106.

The Court in *RJR Nabisco* refined the two-step framework for identifying impermissible extraterritorial applications of federal statutes. First, the Court "ask[s] whether the presumption against extraterritoriality has been rebutted" by "a clear, affirmative indication that [the statute] applies extraterritorially." 136 S. Ct. at 2101. If the presumption has been rebutted, then an extraterritorial application of the statute is permissible. But if the presumption has not been rebutted, "then at the second step [the Court] determine[s] whether the case involves a domestic application of the statute" by "looking to the statute's 'focus.'" *Ibid.* "If the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application even if other conduct occurred

abroad." *Ibid.* Although the inquiry will typically proceed in these two steps, courts are free to start at step two "in appropriate cases." *Id.* at 2101 n.5 (citing *Pearson* v. *Callahan*, 555 U.S. 223, 236-243 (2009)).

2. Section 284 does not contain any "clear, affirmative indication that [it] applies extraterritorially." *RJR Nabisco*, 136 S. Ct. at 2101. But the approach that petitioner advocates—*i.e.*, taking account of foreign conduct to ensure that a U.S. patent holder is fully compensated for domestic acts of patent infringement—is a "permissible domestic application" of that provision. *Ibid.*

a. Section 284 does not regulate conduct abroad, but rather ensures that a U.S. patentee is adequately compensated for domestic infringement of its rights under U.S. law. The underlying substantive provisions of the Patent Act likewise do not regulate extraterritorial conduct. The exclusive rights conferred by a U.S. patent apply only "throughout the United States" and to imports "into the United States." 35 U.S.C. 154(a)(1). Infringement similarly occurs only through conduct "within the United States," importing the invention "into the United States," or supplying "in or from the United States" components of that invention with the requisite intent that they be assembled abroad. 35 U.S.C. 271(a) and (f). Consistent with those limitations, petitioner sued respondent in U.S. court for a tortious personal injury defined by U.S. law—infringement of a U.S. patent—that respondent committed entirely within the United States.

b. In order to determine the extent of the financial harm that petitioner suffered as a result of respondent's infringement, the jury considered evidence concerning both the overseas conduct in which respondent's customers *actually* engaged, and the profit-making marine

seismic surveys that petitioner *would have* conducted on the high seas if the infringement had not occurred. The court of appeals viewed the jury's consideration of that evidence in the course of determining damages to be inconsistent with the presumption against extraterritoriality. See Pet. App. 44a-45a. In a variety of contexts, however, the application of U.S. patent laws to domestic events may depend in part on conduct that occurs overseas.

For example, a journal article describing an invention, published before the priority filing date of a U.S. patent application for the same invention, constitutes prior art that could be used as evidence of the patent's invalidity. See 35 U.S.C. 102(a). Although Section 102(a) does not expressly state that foreign publications can have that effect, this Court has long understood that provision and its statutory predecessors to encompass prior art published anywhere in the world. See, *e.g.*, *Seymour* v. *Osborne*, 78 U.S. (11 Wall.) 516, 554-555 (1871) (discussing an anticipation defense based on a London publication). Considering such foreign publications to determine whether a U.S. patent should be issued, or whether conduct occurring within the United States can give rise to liability for patent infringement, involves a permissible *domestic* application of the Patent Act.

Similarly, this Court held last Term that, when a U.S. patent owner authorizes the sale of an article embodying the patented invention, the U.S. patent rights in that article are exhausted. *Impression Prods., Inc.* v. *Lexmark Int'l, Inc.*, 137 S. Ct. 1523, 1535-1538 (2017). Describing the common-law tradition disfavoring restraints on the alienation of chattels as "borderless," the

Court held that even the foreign sale of a patented article by the patentee exhausts the patentee's domestic patent rights. *Id.* at 1536; cf. *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 568 U.S. 519, 539-540 (2013). The effect of the Court's exhaustion holding was that the defendant's importation of the relevant articles into the United States did not constitute patent infringement. See *Impression Prods.*, 137 S. Ct. at 1535.

In these and other circumstances, evidence of foreign events can be—and regularly is—taken into account in applying the Patent Act to domestic conduct. Consideration of such evidence has never been viewed as implicating the presumption against extraterritoriality. The Court in *Impression Products*, for example, did not cite *RJR Nabisco* or refer to the presumption. Those decisions are also consistent with the more general principle that, even when particular conduct cannot be regulated directly, it may be considered as evidence in determining the legality of *other* conduct. Cf. *Wisconsin* v. *Mitchell*, 508 U.S. 476, 489 (1993) ("The First Amendment * * * does not prohibit the evidentiary use of speech to establish the elements of a crime or to prove motive or intent.").

Considering evidence of foreign conduct to measure the harm caused by domestic infringement likewise does not involve regulation of foreign conduct, and does not implicate the presumption against extraterritoriality. This Court assesses "whether [a] case involves a domestic application of [a] statute" by "looking to the statute's 'focus.'" *RJR Nabisco*, 136 S. Ct. at 2101; see *Morrison* v. *National Australia Bank Ltd.*, 561 U.S. 247, 266 (2010). The "focus" of Section 284 is on compensation for infringement of a U.S. patent. Congress's "overriding purpose [was] affording patent owners

complete compensation" for acts of infringement that by definition can occur only within the United States. *General Motors*, 461 U.S. at 655.

To identify the amount of "damages adequate to compensate for the infringement," 35 U.S.C. 284, judges and juries apply the background rules of proximate causation that have traditionally been used to determine whether particular harms are attributable to the defendant's tortious conduct. See pp. 10-12, *supra*. Just as the common-law tradition disfavoring restraints on the alienation of chattels is "borderless," *Impression Products*, 137 S. Ct. at 1536, the common law has historically recognized that a tort committed in one place can be the proximate cause of harm in another. See p. 12-13, *supra*. The rule that the Federal Circuit adopted, under which the profits that a U.S. patent holder would have earned outside the United States can never be included as an element of damages under Section 284, cannot be reconciled with that common-law rule or with Congress's intent to provide full compensation for losses caused by patent infringement.

3. This Court's decision in *RJR Nabisco* does not require a different result. In *RJR Nabisco*, the Court first held that 18 U.S.C. 1962 prohibits a pattern of racketeering activity that occurs abroad to the extent that the underlying RICO predicate offenses "themselves apply extraterritorially," as some predicates do. 136 S. Ct. at 2102. The Court concluded that, to that extent, "the presumption against extraterritoriality has been rebutted." *Id.* at 2101.

The Court further held, however, that RICO's private right of action allowing "[a]ny person injured in his business or property by reason of a violation of section 1962" to sue for treble damages, 18 U.S.C. 1964(c), does

not provide a cause of action to a plaintiff who suffered an injury only to his business or property abroad. *RJR Nabisco*, 136 S. Ct. at 2106. The Court explained that a private plaintiff "must allege and prove a *domestic* injury to its business or property," even when the underlying RICO predicates (and thus the substantive prohibitions imposed by RICO) apply extraterritorially. *Ibid.* The Court emphasized that extending a private right of action to encompass foreign injuries caused by a violation of a statute regulating foreign conduct creates an added potential for international friction. *Ibid.* The Court also noted that, "by cabining RICO's private cause of action to particular kinds of injury," Congress "signaled that the civil remedy is not coextensive with § 1962's substantive prohibitions." *Id.* at 2108. The Court thus implicitly concluded that Section 1964(c)'s "focus" is on the injury to the plaintiff's business or property.

Those holdings are inapposite here. Unlike some of RICO's predicate offenses, the Patent Act's substantive provisions regulate conduct only inside the United States. See p. 25, *supra*. Petitioner's reading of Section 284 therefore cannot produce an award of damages for harms suffered abroad as a result of legal violations outside the United States.[4] And unlike RICO's private

---

[4] To be sure, the plaintiffs in *RJR Nabisco* alleged that the defendants had committed RICO predicate crimes inside as well as outside the United States. See 136 S. Ct. at 2105. The Court's holding that Section 1964(c) requires a domestic injury to business or property appears to bar any private suit alleging that a RICO predicate offense committed within the United States has caused injury abroad. Nothing in Section 1964(c)'s text, however, suggests that the availability of the private right of action depends on where the substantive violation occurred. Thus, to address the distinct problems that might result from construing Section 1964(c) to encompass foreign injuries caused by foreign violations, the private cause

cause of action, which is limited to a subset of the injuries that substantive RICO violations might cause, the Patent Act's cause of action is "coextensive with [its] substantive prohibitions" against infringement. *RJR Nabisco*, 136 S. Ct. at 2108; see 35 U.S.C. 281 (providing without qualification that "[a] patentee shall have remedy by civil action for infringement of his patent"). And while 18 U.S.C. 1964(c) defines the class of plaintiffs who can assert a private cause of action, Section 284 imposes no similar constraint on which plaintiffs can sue. Instead, it addresses only the relief that should be awarded after the plaintiff has already sued and proved infringement.

In decisions applying the presumption against extraterritoriality, this Court has identified as the "focus" of the relevant statute some conduct or event that the statute expressly referenced. The practical effect of applying the presumption has been to construe the statute as though it expressly required the referenced conduct or event to occur "in the United States." Thus, the Court in *RJR Nabisco* construed 18 U.S.C. 1964(c) as though it conferred a cause of action on "[a]ny person injured in his business or property *in the United States* by reason of a violation of section 1962." The Court in *Morrison* similarly construed a statute that forbids the use of certain fraudulent practices "in connection with the purchase or sale of any security," see 561 U.S. at 262

---

of action must be limited to plaintiffs alleging domestic injuries, regardless of the place of the violation. Cf. *Clark* v. *Martinez*, 543 U.S. 371, 377-383 (2005) (holding that, when a statute has been definitively construed so as to avoid a potential constitutional infirmity, that construction governs even in factual circumstances that raise no meaningful constitutional concern).

(quoting 15 U.S.C. 78j(b)), to refer to "purchases and sales of securities in the United States," *id.* at 266.

In this case, by contrast, the activities that the court of appeals viewed as triggering the presumption against extraterritoriality—*i.e.*, the actual surveys performed by respondent's customers, and the additional surveys that petitioner would have performed if its patent had not been infringed—are not expressly referenced in Section 284. It therefore would be odd to treat those activities as the "focus" of the provision. And because Section 284 does not reference the (actual or hypothetical) extraterritorial events that are at issue here, construing that provision as though it included the words "in the United States" would not help respondents.

Section 284 provides that "the court shall award the claimant damages adequate to compensate for the infringement." 35 U.S.C. 284. The "focus" of that provision might reasonably be viewed as the "damages" that Section 284 mandates; the requirement that the award be "adequate to compensate" the patentee; or the "infringement" that those damages redress. Construing the statute to require that any or all of those events must occur "in the United States" would not bar the district court's damages award. A statute mandating "damages adequate to compensate for the infringement *in the United States*" would allow the award, since respondent's infringement did occur (as patent infringement by definition always does) in the United States. A statute mandating "damages *in the United States* adequate to compensate for the infringement" (or "damages adequate to compensate *in the United States* for the infringement") would allow the award as well, since the damages were awarded in this country and petitioner therefore will be compensated here.

Moreover, the court of appeals' interpretation of Section 284 would foreclose the court from awarding the full amount of damages necessary to make petitioner whole, notwithstanding Congress's directive that a court "shall" award "damages adequate to compensate for the infringement." 35 U.S.C. 284. As explained above, courts applying the presumption against extraterritoriality often construe federal laws to contain geographic limitations that are not reflected in any express statutory language. But construing the phrase "any person injured in his business or property" to mean "any person injured in his business or property *in the United States*" reflects the sort of modest emendation that the presumption against extraterritoriality characteristically entails. The court below, by contrast, effectively construed Section 284 to mean "[t]he court shall award the claimant damages adequate to compensate for *the profits the claimant would have earned in the United States but for* the infringement." Addition of the italicized language entails much more radical textual surgery of the sort appropriately reserved for Congress. Cf. *Jennings* v. *Rodriguez*, No. 15-1204 (Feb. 27, 2018), slip op. 2 (a court relying on the canon of constitutional avoidance "must *interpret* the statute, not rewrite it").

Section 284 differs from RICO's private right of action in another respect as well. Although a private RICO plaintiff must allege and prove injury to its own business or property, a RICO suit is premised on the defendant's violations of federal criminal laws that protect the general public, not the RICO plaintiff specifically. In a patent infringement suit, by contrast, the plaintiff may recover damages only for the violation of

its *own* legal rights. See 35 U.S.C. 154(a)(1) (a patent provides "a grant to the patentee" of certain rights).

Section 284 directs the court in a successful infringement suit to award "damages adequate to compensate for the *infringement*," not damages adequate to compensate for the economic losses the patentee suffered as a result of the infringing conduct. The "infringement" to which Section 284 refers is in every such case a legal injury that the patent holder itself has suffered within the United States. See *Black's Law Dictionary* 905 (10th ed. 2014) (defining "injury" as "[t]he violation of another's legal right, for which the law provides a remedy; a wrong or injustice"). Section 284's text and purpose thus reflect the provision's domestic focus, even in cases where the consequences of infringing conduct include the loss of profits that the patentee otherwise would have earned overseas.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

NOEL J. FRANCISCO
Solicitor General
CHAD A. READLER
Acting Assistant Attorney General
MALCOLM L. STEWART
Deputy Solicitor General
ZACHARY D. TRIPP
Assistant to the Solicitor General
MARK R. FREEMAN
JOSEPH F. BUSA
Attorneys

MARCH 2018

No. 16-1011

IN THE

Supreme Court of the United States

WESTERNGECO LLC

Petitioner,

v.

ION GEOPHYSICAL CORPORATION

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF AMICUS CURIAE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF NEITHER PARTY

MYRA H. MCCORMACK
President
American Intellectual Property Law Association
1400 Crystal Drive
Suite 600
Arlington, VA 22202
703.415.0780

DAVID W. LONG
Counsel of Record
Essential Patent LLC
P.O. Box 710868
Oak Hill, VA 20171
571.401.1922
longdw@essentialpatent.net

March 5, 2018

Counsel for Amicus Curiae American Intellectual Property Law Association

TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES iii

INTEREST OF AMICUS CURIÆ 1

SUMMARY OF ARGUMENT 2

ARGUMENT 3

I. Awarding Foreign Lost Profits Does Not Impermissibly Extend U.S. Law Extraterritorialy 3

A. This Court's framework for analyzing extraterritoriality. 4

B. Section 271(f) infringement actions are always permissible domestic applications of U.S. law even though foreign conduct is relevant. 6

C. Including harm from foreign conduct for full compensation under § 284 does not impermissibly extend U.S. law extraterritoriality. 9

II. Section 284 Of The Patent Statute Provides Uniformly—For All Infringement Actions—*Full Compensation* For Any Harm *Proximately Caused* By The Domestic Infringing Conduct ... 12

A. Section 284 patent damages require full compensation for harm proximately caused by the infringing conduct. 13

B. Section 284 applies uniformly to all types of infringement actions. 16

C. Providing Full Compensation Under Section 284 For Foreign Harm Proximately Caused by Domestic Patent Infringement Is Essential To The U.S. Patent System 18

III. The Court's Decision Here Should Be Narrowly Tailored With Guidance For Case Law To Develop The Proximate- Cause Standard..... 19

CONCLUSION 21

TABLE OF AUTHORITIES

Page(s)

CASES

Bilski v. Kappos,
130 S. Ct. 3218 (2010) 18

Brown v. Duchesne,
60 U.S. 183 (1857) 12

Carbice Corp. of America v. America Patents Development Corp.,
283 U.S. 27 (1931) 15

Carnegie Mellon Univ. v. Marvell Tech. Group,
807 F.3d 1283 (Fed. Cir. 2015) 21

Deepsouth Packing Co. v. Laitram,
406 U.S. 518 (1972) 7, 20

Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.,
235 U.S. 641 (1915) 10, 11

eBay Inc. v. MercExchange, LLC,
547 U.S. 388 (2006) 18

Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.,
535 U.S. 722 (2002) 18

Goulds Manufacturing Company v. Cowing,
105 U.S. 253 (1882) 10

Kiobel v. Royal Dutch Petroleum Co.,
133 S.Ct. 1659 (2013) 5, 7

Lexmark Intern. v. Static Control,
134 S. Ct. 1377 (2014) 16, 19

Microsoft Corp. v. AT&T Corp.,
550 U.S. 437 (2007) 3, 7, 8

Morrison v. National Australia Bank Ltd.,
561 U.S. 247 (2010) 5

Octane Fitness v. Icon Health & Fitness,
134 S.Ct. 1749 (2014) 18

Panduit Corp. v. Stahlin Bros. Fibre Works,
575 F.2d 1152 (6th Cir. 1978) 15

Petitions of Kinsman Transit Co.,
388 F.2d 821 (2nd Cir. 1968) 15

P*ower Integrations, Inc. v. Fairchild Sem. Int'l, Inc.*,
711 F.3d 1348 (Fed. Cir. 2013) 21

Rite-Hite Corp. v. Kelley Co., Inc.,
56 F.3d 1538 (Fed. Cir. 1995) (*en banc*) 15

RJR Nabisco, Inc. v. European Community,
136 S.Ct. 2090 (2016) ..... passim

Yale Lock Mfg. Co. v. Sargent,
117 U.S. 536 (1886) 14

STATUTES

18 U.S.C. § 1964(c) 5

35 U.S.C. § 271(a) 16

35 U.S.C. § 271(b) 17

35 U.S.C. § 271(c) 17

35 U.S.C. § 271(f) ..... passim

35 U.S.C. § 283 9

35 U.S.C. § 284 ..... passim

RULES

Supreme Court Rule 37.3(a) 2

Supreme Court Rule 37.6.....1

INTEREST OF AMICUS CURIÆ

The American Intellectual Property Law Association ("AIPLA") is a national bar association of approximately 13,500 members who are primarily lawyers engaged in private and corporate practice, in government service, and in the academic community. AIPLA's members represent a wide and diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, trade secret, and unfair competition law as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property. Our mission includes helping establish and maintain fair and effective laws and policies that stimulate and reward invention while balancing the public's interest in healthy competition, reasonable costs, and basic fairness.[1]

---

[1] In accordance with Supreme Court Rule 37.6, AIPLA states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than AIPLA and its counsel. Specifically, after reasonable investigation, AIPLA believes that (i) no member of its Board or Amicus Committee who voted to file this brief, or any attorney in the law firm or corporation of such a member, represents a party to the litigation in this matter, (ii) no representative of any party to this litigation participated in the authorship of this brief, and (iii) no one other than AIPLA, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief.

AIPLA has no stake in the parties to this litigation or in the result of this case, other than its interest in the correct and consistent interpretation of the laws affecting intellectual property.[2]

SUMMARY OF ARGUMENT

A damages award for infringement under 35 U.S.C. § 271(f) that is based on foreign activity does not impermissibly extend U.S. law extraterritorially. This Court permits foreign conduct to be considered as long as domestic conduct is the focus of the federal statute in question. That is the case here.

Section 271(f) focuses on the domestic conduct of supplying components from the United States. Further, the patent damages statute, 35 U.S.C. § 284, focuses on compensating the patent owner for harm caused by domestic infringement, including § 271(f) infringement, wherever that harm occurs. Accordingly, courts may award foreign lost profits as a measure of harm arising from domestic infringement.

Such damages are properly limited to harm proximately caused by the domestic infringing activity. Patent infringement is essentially a tort. Tort damages traditionally are limited to harm proximately caused by the tortious acts. Further, the Court generally applies a proximate cause standard to federal statutes.

---

[2] AIPLA has the consent of the parties to file this amicus brief, pursuant to Supreme Court Rule 37.3(a), based on letters filed with this Court on February 2, 2018 by Petitioner and on February 1, 2018 by Respondent granting blanket consent to the filing of amicus briefs.

The world increasingly is becoming a global market. This global market is enabled by innovations in communications, information technology, transportation and manufacturing that, in turn, enable outsourcing of traditional domestic activities. But such innovation is frustrated by the Federal Circuit's categorical rule that denies full compensation under § 284 for harm proximately caused by domestic infringement solely because such harm occurred abroad.

The Court should reverse the Federal Circuit and the categorical rule it established in this case against recovering foreign lost profits.

ARGUMENT

I. Awarding Foreign Lost Profits Does Not Impermissibly Extend U.S. Law Extraterritorialy

The presumption against the extraterritorial application of U.S. laws arises from a canon of statutory construction that, "[a]bsent clearly expressed congressional intent to the contrary, federal laws will be construed to have only domestic application." *RJR Nabisco, Inc. v. European Community*, 136 S.Ct. 2090, 2100 (2016).[3] Applying this Court's framework for analyzing extraterritoriality shows that awarding lost profits based on foreign sales will not run afoul of the presumption against extraterritoriality where that

---

[3] *See also Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454 (2007) ("United States law governs domestically but does not rule the world.").

award remedies harm proximately caused by § 271(f) domestic infringement.

A. This Court's framework for analyzing extraterritoriality.

The Court has established a "two-step framework for analyzing extraterritoriality issues." *RJR Nabisco*, 136 S.Ct. at 2101. These *steps* are essentially two independent ways to determine whether enforcing a federal statute in a case that involves foreign conduct would impermissibly apply U.S. law extraterritorially.[4]

The first step considers whether the statute "gives a clear, affirmative indication that it applies extraterritorially," thus rebutting the extraterritoriality presumption. *Id.* If so, there is no need to consider the second step and the extraterritorial statute will apply to all foreign acts within its scope. *Id.*

The second step considers "whether the case involves a domestic application of the statute ... by looking at the statute's 'focus.' " *Id.*

> If the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application **even if other conduct occurred abroad**; but if the conduct relevant to the focus occurred in a foreign country, then the case involves an imper-

---

[4] *See RJR Nabisco*, 136 S.Ct. at 2101 n.5 (do not need to apply steps in a particular order).

> missible extraterritorial application regardless of any other conduct that occurred in U.S. territory.

Id. (emphasis added.) The Court developed this framework in three cases.

In the first case, the Court found that the focus of congressional concern for a federal securities statute was "purchases and sale of securities in the United States" (rather than abroad as in that case). *Morrison v. National Australia Bank Ltd.*, 561 U.S. 247, 266 (2010). It concluded that the statute could not be applied to foreign securities transactions even though the fraud involved domestic misrepresentations. *Id.* at 266.

In the second case, the Court found that all of the conduct relevant to the Alien Tort Statute in question occurred abroad. Thus no domestic conduct could fall within the statute's focus, however defined. *Kiobel v. Royal Dutch Petroleum Co.*, 133 S.Ct. 1659, 1669 (2013).

Finally, in ruling on a private right of action for RICO violations under 18 U.S.C. § 1964(c), the *RJR Nabisco* Court considered "'whether the court has authority to recognize a cause of action under U.S. law for injury suffered overseas." *RJR Nabisco*, 136 S.Ct. at 2109. The Court concluded that nothing in the statute "provides a clear indication that Congress intended to create a private right of action for injuries suffered outside of the United States." *Id.* at 2108.

The Court has not yet applied this framework to the patent statute. But doing so establishes that, consistent with this Court's prior patent law decisions,

foreign conduct may be considered to assess patent law remedies after establishing infringement based on domestic conduct.

B. Section 271(f) infringement actions are always permissible domestic applications of U.S. law even though foreign conduct is relevant.

The cause of action in this case is based on 35 U.S.C. § 271(f), which states in relevant part:

> (1) Whoever ... supplies or causes to be **suppled in or from the United States** ... components of a patented invention ... in such a manner as to actively induce the combination of such components outside the United States **in a manner that would infringe the patent if such combination occurred within the United States**, shall be liable as an infringer.
>
> (2) Whoever ... supplies or causes to be **supplied in or from the United States** any component of a patented invention ... intending that such component will be combined outside the United States **in a manner that would infringe the patent if such combination occurred within the United States**, shall be liable as an infringer.

35 U.S.C. § 271(f) (emphasis added.)

The statute's plain language references both domestic and foreign conduct. It defines an infringement based on the domestic act of "supplying" components from the United States and the supplier's intent regarding foreign combination of those components.

Section 271(f) infringement actions satisfy the second step of the Court's extraterritoriality framework, because the *focus* of the statute is domestic conduct. Specifically, the focus for one to be "liable as an infringer" under §271(f) concerns domestic acts—i.e., "supplies or causes to be supplied [component(s)] in or from the United States." Thus, unlike *Kiobel* and *RJR Nabisco*, liability under § 271(f) will not be based on foreign activity alone. Rather, given the plain statutory language, a § 271(f) cause of action always will arise from domestic conduct even though foreign conduct also is relevant.

The Court's prior case law confirms that § 271(f) focuses on infringement arising from domestic conduct even though foreign conduct is relevant. In *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007), software on a "Golden Master" provided from the United States was copied onto computers abroad. The Court's liability determination focused on the alleged domestic conduct of "supplying" a component "from the United States." *Id.* at 452-454.

The legislative history further confirms that infringement under § 271(f) focuses on domestic conduct. Congress enacted § 271(f) in response to this Court's decision in *Deepsouth Packing Co. v. Laitram*, 406 U.S. 518 (1972). In *Deepsouth*, the defendant was found to infringe a patent by making a complete shrimp deveining machine in the United States, which it then exported. To avoid continued infringement, the defendant still made the machine components in the United States, but exported them for final assembly abroad. The *Deepsouth* Court held that the domestic conduct of making only components and

supplying them from the United States was not an infringement—i.e., the patent statute required fully combining the components to thus *make the completed invention* in the United States. *Id.* at 532.[5] In response, Congress enacted § 271(f) so that domestic acts of supplying components from the United States would be an infringement.[6]

In sum, under step two of the extraterritoriality framework, the plain statutory language, case law and legislative history all confirm that § 271(f) infringement will always arise from domestic acts that are the focus of the statute. Section 271(f) infringement actions, therefore, do not impermissibly extend the U.S. patent law exterritorialy even though foreign conduct is involved. *RJR Nabisco* at 2101.

---

[5] In *Microsoft*, the Court explained: "Nor could Deepsouth be held liable as a direct infringer, for it did not make, sell, or use the patented invention—the fully assembled deveining machine—within the United States." *Microsoft*, 550 U.S. at 443.

[6] The *Microsoft* Court recognized this purpose explicitly: "Focusing its attention on *Deepsouth*, Congress enacted § 271(f). The provision expands the definition of infringement to include supplying from the United States a patented invention's components." *Id.* at 444-45.

C. Including harm from foreign conduct for full compensation under § 284 does not impermissibly extend U.S. law extraterritoriality.

Awarding § 284 damages for foreign harm caused by § 271(f) domestic infringing conduct does not create extraterritoriality concerns for at least three reasons.

Consider Cause of Action, Not Remedy. First, the Court's extraterritoriality framework addresses the cause of action, not the remedy. Under § 271(f), a party supplying components from the United States under certain circumstances "shall be liable as an infringer." Section 284 damages are not required to establish such infringement liability; indeed, the patent owner need not show or seek § 284 damages (e.g., the patent owner could seek only injunctive relief under § 283). The question of § 284 damages arises only after liability has been established—i.e., "upon finding for the claimant [patent owner]" that there is infringement. This Court has not applied its extraterritoriality framework to the relief granted once a cause of action is established.

This is consistent with the Court's prior patent decisions. For example, in *Goulds Manufacturing Company v. Cowing*, 105 U.S. 253, 253 (1882), infringement liability was based on the defendant's manufacture of the accused devices in the United States and the issue on appeal was limited to the remedy for such infringement—i.e., disgorgement of the infringer's

profits.[7] The remedy considered profits from the defendant's domestic and foreign sales: "there was no market for pumps adapted to this particular use, except in the oil-producing regions of Pennsylvania and **Canada**." *Goulds*, 105 U.S. at 256 (emphasis added). The Court awarded disgorgement of profits from all of the defendant's sales without parsing out profits from the Canadian sales. *Id.* at 257-258.

By contrast, this Court *Dowagiac* decision declined to disgorge foreign profits for devices sold in Canada, because the defendants who sold them had no domestic infringement liability:

> Some of the drills, about 261, sold by the defendants were sold in Canada, no part of the transaction occurring within the United States, and as to them there could be no recovery of either profits or damages. The right conferred by a patent under our law is confined to the United States and its Territories (Rev. Stat., § 4884) and infringement of this right cannot be predicated on acts wholly done in a foreign country. ... The cause of [*Goulds*] *Manufacturing Co. v. Cowing*, 105 U.S. 253, is cited as holding otherwise but is not in point. There the defendant made the infringing articles in the United

---

[7] *See Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 650 (1915) (In *Goulds* "the defendant made the infringing articles in the United States."). Disgorgement of the infringers profits was an available remedy under the patent statute at that time.

> States. Here, while they were made in the United States, they were not made by the defendants. The latter's infringement consisted only in selling the drills after they passed out of the makers' hands. The place of sale is therefore of controlling importance here.

Dowagiac, 235 U.S. at 650.

Domestic Focus of § 284. Second, even if the extraterritoriality framework were extended to consider remedies, foreign harm properly may be used to measure § 284 damages under the second step of the framework. Specifically, § 284 provides for and focuses on damages that fully compensate "for the infringement" that has been established by domestic conduct under §271(f). Considering foreign harm proximately caused by such domestic conduct, therefore, does not impermissibly extend U.S. law extraterritorially. Indeed, because § 271(f) infringement considers the infringer's intent that supplied components will be combined abroad, full compensation for such infringement should include harm caused when such expected foreign combination actually occurs.

Infringer Willingly Subject To U.S. Domestic Law. Third, § 284 damages are awarded against only those who willingly subjected themselves to U.S. jurisdiction for the infringing conduct at issue. Only entities that perform the domestic conduct covered by § 271(f) are liable under that provision. Entities whose relevant conduct occurred entirely abroad—e.g., entities that combined abroad the components supplied from the U.S.—are not liable under § 271(f).

This is consistent with *Brown v. Duchesne*, 60 U.S. 183, 199 (1857), where an improved gaffe for sailing vessels covered by a U.S. patent was made and installed abroad on a foreign vessel. The patent holder sought to establish infringement liability based on that vessel entering and anchoring in a U.S. port. The Court ruled that liability in such instances "were not in the contemplation of Congress in enacting the patent laws, and cannot, upon any sound construction, be regarded as embracing them." *Id.* at 196-197. In contrast, § 271(f) plainly contemplates infringement liability arising from specified domestic conduct.

Accordingly, awarding lost profits for sales lost in foreign countries does not impermissibly extend either § 271(f) or § 284 extraterritorially.

II. Section 284 Of The Patent Statute Provides Uniformly—For All Infringement Actions—*Full Compensation* For Any Harm *Proximately Caused* By The Domestic Infringing Conduct

Section 284 of the patent statute provides damages "for the infringement" "upon finding for the claimant," stating in relevant part:

> **Upon finding for the claimant** the court shall award the claimant **damages adequate to compensate for the infringement**, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interests and costs as fixed by the court.

35 U.S.C. § 284 (emphasis added).

As discussed below, the statutory language and this Court's jurisprudence establish that such damages must fully compensate the patent owner for all harm proximately caused by the infringing conduct, including harm abroad. Further, the damages statute provides no special limits on remedies for § 271(f) infringement, but applies uniformly for all types of infringement actions. Moreover, providing full compensation under § 284 for foreign harm proximately caused by domestic infringement is essential to the nation's patent system.

A. Section 284 patent damages require full compensation for harm proximately caused by the infringing conduct.

The Court has held that § 284 is directed to recovering "damages" from harm caused by the infringement:

> [Patent damages] have been said to constitute "the difference between [the patent owner's] pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred." The question to be asked in determining damages is how much had the Patent Holder and Licensee suffered by the infringement. And that question [is] primarily: had the infringer not infringed, what would Patent Holder-Licensee have made?

Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 507 (1964) (quoting *Yale Lock Mfg. Co. v.*

Sargent, 117 U.S. 536, 552 (1886)) (some internal quotations and citations omitted).

In *General Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983), this Court reviewed the statutory language and legislative history of § 284 and held that "Congress sought to ensure that the patent owner would in fact receive *full compensation for 'any damages' he suffered* as a result of infringement." *Id.* at 654-655 (emphasis added.) The Court explained that "Congress expressly provided in § 284 that the court 'shall award the claimant *damages adequate to compensate* for the infringement." *Id.* at 655. For example, awarding prejudgment interest "ensure[s] that the patent owner is *placed in as good a position as he would have been* in had the infringer entered into a reasonable royalty agreement" and "serves to *make the patent owner whole.*" *Id.* at 655-56 (emphasis added).

The language of § 284 and this Court's *General Motors* decision leave little doubt that the patent owner should be fully compensated for all harm caused by the infringement. That authority requires:

- "damages adequate to compensate for the infringement,"
- "full compensation for 'any damages ... suffered,"
- an award that places the patent owner "in as good a position as he would have been in," and
- an award to "make the patent owner whole."

Id. at 654-656.

Thus, for example, patent owners may recover damages based on lost profits that the patent owner would have earned but for lost sales due to the infringing conduct.[8]

Such full compensation is properly limited to harm *proximately caused* by the infringement. The Court has held that patent "[i]nfringement ... is essentially a tort."[9] Tort damages traditionally are limited to harm proximately caused by the tortious conduct.[10] Further, the Court recently explained that federal statutory causes of action generally require proximate causation:

> [W]e generally presume that a statutory cause of action is limited to plaintiffs whose injuries are proximately caused by violations of the statute. For centuries, it has been a well established principle of [the common law], that in all cases of loss,

---

[8] *See, e.g., Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152, 1156 (6th Cir. 1978); *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995) (*en banc*).

[9] *Carbice Corp. of America v. America Patents Development Corp.*, 283 U.S. 27, 33 (1931); *see also Aro*, 377 U.S. at 500 ("a contributory infringer is a species of joint-tortfeasor").

[10] *See Petitions of Kinsman Transit Co.*, 388 F.2d 821, 824-825 (2nd Cir. 1968) (could not recover damages for harm arising from a sequence of events triggered by negligence because the harm was "too 'remote' or 'indirect' a consequence of defendants' negligence": negligence caused a ship to become unmoored and collide into another ship, causing both ships to drift downstream and strike a bridge that then collapsed and blocked river traffic; "somewhere a point will be reached when courts will agree that the link has become too tenuous").

> we are to attribute it to the proximate cause, and not to any remote cause. That venerable principle reflects the reality that the judicial remedy cannot encompass every conceivable harm that can be traced to alleged wrongdoing. Congress, we assume, is familiar with the common-law rule and does not mean to displace it sub silentio. We have thus construed federal causes of action in a variety of contexts to incorporate a requirement of proximate causation.

Lexmark Intern. v. Static Control, 134 S. Ct. 1377, 1390 (2014).

In sum, the Court should confirm that § 284 provides for full compensation for all harm that the patent owner suffered that was proximately caused by the infringing conduct, including harm abroad.

B. Section 284 applies uniformly to all types of infringement actions.

Section § 271 defines different types of patent infringement. However, it does not prescribe their remedy. Rather, § 284 supplies the damages remedy for different types of infringement. Thus, for example, § 284 provides for damages for the following statutory infringements:

- § 271(a) defines domestic conduct for which someone directly "**infringes** the patent."[11]

---

[11] 35 U.S.C. § 271(a).

- § 271(b) defines domestic conduct for which someone who induces infringement "**shall be liable as an infringer.**"[12]
- § 271(c) defines domestic conduct for which someone "**shall be liable as a contributory infringer.**"[13]

The infringement statute at issue here uses similar language:

- § 271(f) defines certain domestic conduct for which someone "**shall be liable as an infringer.**"

The Court's § 284 jurisprudence has explained that "[w]hen Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly." *General Motors*, 461 at 653. Nothing in the statutory language for infringement suggests treating § 271(f) differently from any other § 271 infringement action. And nothing in § 284 suggests that the damages available for § 271(f) infringement should be treated differently from damages available for any other § 271 infringement action.

---

[12] 35 U.S.C. § 271(b).

[13] 35 U.S.C. § 271(c).

C. Providing Full Compensation Under Section 284 For Foreign Harm Proximately Caused by Domestic Patent Infringement Is Essential To The U.S. Patent System

The Federal Circuit's decision categorically denies patent owners recovery for foreign losses caused by domestic acts of infringement. This Court has consistently corrected attempts to impose categorical rules in the patent law, and the Court should do so here.[14]

The world is becoming a single, global marketplace. Innovations in communications, transportation, and manufacturing allow instant sharing of information anywhere in the world and facilitate distributing products globally. Such innovations were achieved through substantial investments and risks taken by innovators. They have been incentivized by the prom-

---

[14] *See, e.g., Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 737-38 (2002) (rejecting automatic bar against applying the doctrine of equivalents to patent limitations that were amended during prosecution of a patent); *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 394 (2006) ("Just as the District Court erred in its categorical denial of injunctive relief, the Court of Appeals erred in its categorical grant of such relief."); *Octane Fitness v. Icon Health & Fitness*, 134 S.Ct. 1749, 1756 (2014) (The Federal Circuit's framework for awarding attorney fees to the prevailing party under 35 U.S.C. § 285 in patent cases "is overly rigid" and "superimposes an inflexible framework onto statutory text that is inherently flexible."); *see also Bilski v. Kappos*, 130 S. Ct. 3218 (2010) (rejecting categorical rule that business methods are not patentable).

ise of patent protection. Such incentives are weakened by the Federal Circuit's categorical rule that precludes innovators from recuperating losses sustained abroad from domestic infringement.

As the world becomes a single marketplace, the prospect of harm abroad caused by domestic acts of infringement will only increase. Cutting-off relief at the border undermines the value of patents and the incentives to innovate.

III. The Court's Decision Here Should Be Narrowly Tailored With Guidance For Case Law To Develop The Proximate-Cause Standard

This Court has acknowledged that what constitutes proximate cause is not always clearly defined, but courts are well-equipped to develop its contours:

> The proximate-cause inquiry is not easy to define, and over the years it has taken various forms; but courts have a great deal of experience applying it, and there is a wealth of precedent for them to draw upon in doing so. Proximate-cause analysis is controlled by the nature of the statutory cause of action. The question it presents is whether the harm alleged has a sufficiently close connection to the conduct the statute prohibits.

Lexmark, 134 S.Ct. at 1390.

Allowing such case-by-case development is prudent. Two examples where some amount of harm

abroad may be caused by domestic acts of infringement show how proximate cause should play a role in determining the proper amount of damages under § 284.

Single Product Example. Infringer makes in the U.S. components A, B and C that are supplied from the U.S. and assembled overseas to form a product that practices the patented invention, giving rise to §271(f) liability. Those assembled products are sold overseas by a competitor of the patent owner, causing the patent owner to lose foreign sales. Each act of supplying the components results in assembly and sale of a single competing product abroad to which the patent owner loses sales and profits for its product.[15] In sum, each single act of domestic infringement causes a single lost sale abroad and lost profits therefrom—i.e., a direct one-to-one correlation.

Design Example. Infringer makes and tests various prototypes of a product in the U.S. that include the patented invention, which gives rise to liability under §271(a) for making and using the invention. After perfecting the prototype design by its infringing activities in the U.S., the infringer provides the design to a manufacturer overseas that makes and sells products that include the patented invention. The patent owner loses foreign sales (and profits therefrom)

---

[15] This example is based in part on the facts of the Court's decisions in *Deepsouth* (three components of patented shrimp deveining machine supplied from U.S. for assembly abroad) and *Cowing* (disgorge profits for sales in Canada for machines made in the U.S.).

to those competing products.[16] In this example, a few domestic acts of infringement cause substantially more instances of lost sales abroad and lost profits therefrom.

CONCLUSION

For the foregoing reasons, AIPLA respectfully requests that the Court reject the Federal Circuit's categorical bar against recovering damages for foreign harm caused by domestic infringement.

Respectfully submitted,

MYRA H. MCCORMACK
President
American Intellectual Property Law Association
1400 Crystal Drive
Suite 600
Arlington, VA 22202
703.415.0780

DAVID W. LONG
Counsel of Record
Essential Patent LLC
P.O. Box 710868
Oak Hill, VA 20171
571.401.1922
longdw@essentialpatent.net

March 5, 2018

---

[16] This example is based in part on the facts of *Carnegie Mellon Univ. v. Marvell Tech. Group*, 807 F.3d 1283 (Fed. Cir. 2015) and *Power Integrations, Inc. v. Fairchild Sem. Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013).

No. 16-1011

IN THE

Supreme Court of the United States

WESTERNGECO, LLC,

Petitioner,

v.

ION GEOPHYSICAL CORPORATION,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF ELECTRONIC FRONTIER FOUNDATION AND R STREET INSTITUTE AS *AMICI CURIAE* IN SUPPORT OF RESPONDENT

BERNARD CHAO
Associate Professor
UNIVERSITY OF DENVER
STURM COLLEGE OF LAW.
2255 East Evans Avenue
Denver, CO 80208
(303) 871-6110

DANIEL K. NAZER
Counsel of Record
ELECTRONIC FRONTIER
FOUNDATION
815 Eddy Street
San Francisco, CA 94109
(415) 436-9333
daniel@eff.org

BRIAN J. LOVE
Assistant Professor
SANTA CLARA UNIVERSITY
SCHOOL OF LAW
500 El Camino Real
Santa Clara, CA 95053
(408) 554-4783

CHARLES DUAN
R STREET INSTITUTE
1212 New York Avenue, NW
Suite 900
Washington, DC 20005
(202) 525-5717

Counsel for Amici Curiae

April 2, 2018

279447

TABLE OF CONTENTS

Page

TABLE OF CONTENTS i

TABLE OF CITED AUTHORITIES iii

STATEMENT OF IDENTITY AND INTEREST OF *AMICI CURIAE* 1

INTRODUCTION AND SUMMARY OF ARGUMENT 2

ARGUMENT 4

I. PATENT DAMAGES BASED ON EXTRATERRITORIAL ACTIVITY CONFLICT WITH THE STATUTORY TEXT 4

A. Section 271(a) Is Expressly Limited to Domestic Conduct 5

B. Section 271(f) Also Focuses on Domestic Conduct 9

II. THIS COURT SHOULD NOT ALLOW EXTRATERRITORIAL DAMAGES IN PATENT CASES 12

A. A Worldwide Damages Regime Would Discourage Companies from Conducting Research and Development in the United States 13

Table of Contents

Page

B. A Worldwide Damages Regime Will Lead to Overcompensation for Patent Owners 15

C. A Worldwide Damages Regime Will Undermine Other Nations' Domestic Patent Policies 18

CONCLUSION 22

TABLE OF CITED AUTHORITIES

Page

CASES

Alice Corp. Pty. v. CLS Bank Int'l,
134 S. Ct. 2347 (2014) 20

Brown v. Duchesne,
19 U.S. (1 How.) 183 (1856) 5

Carnegie Mellon Univ. v.
Marvell Tech. Grp., Ltd.,
986 F. Supp. 2d 574 (W.D. Pa. 2013) 6

Carnegie Mellon University v.
Marvell Technology Group, Ltd.,
807 F.3d 1283 (Fed. Cir. 2015) 6, 8, 13, 14

Deepsouth Packing Co. v. Laitram,
406 U.S. 518 (1972) 9, 10, 11

Dowagiac Mfg. Co. v.
Minnesota Moline Plow Co.,
235 U.S. 641 (1915) 5

Hughey v. United States,
495 U.S. 411 (1990) 7

Impression Prods., Inc. v. Lexmark Int'l, Inc.,
137 S. Ct. 1523 (2017) 16

In re Alappat,
33 F.3d 1526 (Fed. Cir. 1994) 20

Cited Authorities

Page

Microsoft Corp. v. AT&T Corp.,
550 U.S. 437 (2007) 4, 15, 16

Power Integrations, Inc. v.
Fairchild Semiconductor Int'l, Inc.,
711 F.3d 1348 (Fed. Cir. 2013).....6, 8, 9, 17

RJR Nabisco, Inc. v. European Community,
136 S. Ct. 2090 (2016).....4, 7

WesternGeco L.L.C. v. ION Geophysical Corp.,
791 F.3d 1340 (Fed. Cir. 2015)..... 10-11

STATUTES

18 U.S.C. § 3580(a).....7

35 U.S.C. § 271.....7

35 U.S.C. § 271(a)..... *passim*

35 U.S.C. § 271(f)..... *passim*

35 U.S.C. § 284.....5, 7

LEGISLATIVE MATERIALS

S. Rep. No. 98-663 (1984).....10

Cited Authorities

Page

OTHER AUTHORITIES

Agreement on Trade-Related Aspects of Intellectual Property Rights, adopted by United States Dec. 8, 1994, 1869 U.N.T.S. 299. 16

Alan M. Fisch & Brent H. Allen, *The Application of Domestic Patent Law to Exported Software: 35 U.S.C. § 271(f)*, 25 U. Pa. J. Int'l Econ. L. 557 (2014) 4

Bernard Chao, *Patent Imperialism*, 109 Nw. U. L. Rev. Online 77 (2014). . . . . *passim*

Christopher Mims, *How New Zealand banned software patents without violating international law*, Quartz (August 28, 2013), https://qz.com/119419/how-new-zealand-banned-software-patents-without-violating-international-law/ 20

Douglas Melamed, *Over-Rewarding Patenting: You Get What You Pay For*, 39 Harv. J.L. & Pub. Pol'y 59 (2016) 17

Japan Patent Office, Examination Guidelines for Patent and Utility Model in Japan, (Eligibility for Patent and Industrial Applicability), Sec. 2.2. (2017), https://www.jpo.go.jp/tetuzuki_e/t_tokkyo_e/files_guidelines_e/03_0100_e.pdf 20

Cited Authorities

Page

Javier Esparza, *Indian Patent Law: Working Within the Trips Agreement Flexibilities to Provide Pharmaceutical Patent Protection While Protecting Public Health*, 24 J. Transnat'l L. & Pol'y 205 (2015) 20-21

Jeff Dunn, *Here's how Apple's iPhone sales break down by region*, Business Insider (March 20, 2017), http://www.businessinsider.com/apple-iphone-sales-region-china-chart-2017-3 17

Martin J. Adelman, et al., Global Issues in Patent Law 1 (2011) 16

Nicolas van Zeebroeck & Stuart Graham, *Comparing Patent Litigation Across Europe: A First Look*, 17 Stan. Tech. L. Rev. 655 (2014).....19

Patents Act of 2013 (N.Z.) 19, 20

PricewaterhouseCoopers, 2017 Patent Litigation Study, https://www.pwc.com/us/en/forensic-services/publications/assets/2017-patent-litigation-study.pdf 19

Tess Townsend, *Here's where Alphabet makes its money*, Recode (April 29, 2017), https://www.recode.net/2017/4/29/15479932/alphabet-revenue-geography 17

Cited Authorities

Page

The Patents Act, 1970 as amended by The Patents (Amendment) Act, 2005 (India) 20

Timothy R. Holbrook, *Boundaries, Extraterritoriality, and Patent Infringement Damages*, 92 Notre Dame L. Rev. 1745 (2017).....4

USPTO, *U.S. Patent Statistics Chart Calendar Years 1963 – 2015*, https://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm 14

Victim and Witness Protection Act of 1982 7

Vindhya S. Mani et. al., *The Indian Patent System: A Decade in Review*, 8 Cybaris An Intell. Prop. L. Rev. 1 (2017).....20

WIPO Standing Committee on the Law of Patents, Exceptions and Limitations to Patent Rights: Exhaustion of Patent Rights (Oct. 6, 2014) http://www.wipo.int/edocs/mdocs/scp/en/scp_21/scp_21_7.pdf 16-17

Xiaowu Li & Don Wang, *Chinese Patent Law's Statutory Damages Provision: The One Size That Fits None*, 26 Wash. Int'l L.J. 209 (2017) 19

STATEMENT OF IDENTITY AND INTEREST OF *AMICI CURIAE*[1]

The Electronic Frontier Foundation ("EFF") is a nonprofit civil liberties organization that has worked for more than 25 years to protect consumer interests, innovation, and free expression in the digital world. EFF and its more than 40,000 dues-paying members have a strong interest in helping the courts ensure that intellectual property law furthers the public interest.

The R Street Institute is a non-profit, non-partisan public-policy research organization. R Street's mission is to engage in policy research and educational outreach that promotes free markets, as well as limited yet effective government, including properly calibrated legal and regulatory frameworks that support Internet economic growth and individual liberty. R Street's particular focus on Internet law and policy is one of offering research and analysis that show the advantages of a more market-oriented society and of more effective, more efficient laws and regulations that protect freedom of expression and privacy.

As part of their mission, EFF and/or R Street have served as *amici* in key patent cases, including *Impression Prods. Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523 (2017);

1. No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amici curiae*, or their counsel, made a monetary contribution intended to fund its preparation or submission. Both Petitioner and Respondent filed blanket consent to the filing of amicus briefs, both of which are on file with the Clerk.

Alice Corp. Pty. Ltd. v. CLS Bank International, 134 S. Ct. 2347 (2014); *Limelight Networks, Inc. v. Akamai Technologies, Inc.*, 134 S. Ct. 2111 (2014); *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120 (2014); *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014); *Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238 (2011); *Bilski v. Kappos*, 561 U.S. 593 (2010); and *Quanta Computer, Inc. v. LG Elecs. Corp.*, 553 U.S. 617 (2008).

INTRODUCTION AND SUMMARY OF ARGUMENT

The Court's ruling in this case could vastly expand the reach of U.S. patent law. Although the dispute before the Court involves a claim brought under 35 U.S.C. § 271(f), the theory of damages advanced by the Solicitor General and others could allow extraterritorial damages in *all* patent cases. Expanding patent damages in this way would effectively transform every U.S. patent into a worldwide patent. As explained below, that result cannot be justified as a matter of doctrine or policy.

I. Damages for patent infringement are limited to acts within the United States—to hold otherwise would contradict the plain text of the Patent Act, which has a clear domestic focus. Section 271(a), which limits infringement to acts "within the United States" and importation "into the United States," is expressly limited to domestic conduct. And although § 271(f) was enacted in response to an extraterritoriality decision of this Court, that statutory provision does not provide for extraterritorial damages; rather, it remains firmly rooted in conduct "in or from the United States." The legislative

history makes clear that Congress' sole intention with § 271(f) was narrowly to abrogate that decision of this Court and no more, contradicting the notion that § 271(f) expands patent remedies to overseas use. Thus, contrary to the arguments of Petitioner and some *amici*, the Patent Act explicitly renders foreign injuries inactionable, an observation sufficient to reject Petitioner's arguments and dispose of this case.

II. The long-standing assumption of international patent policy is that an innovator who wishes to recover damages for sales or uses in a jurisdiction must apply for a patent in that nation. Disrupting that arrangement will cause a number of harms, many of which would be felt particularly by companies operating in the United States. Extraterritorial damages, especially if imposed under a theory that would apply even to infringement under § 271(a), could expose companies that conduct research and development in the United States to worldwide damages. This would discourage companies from innovating here.

International damages could also undermine other nations' sovereignty. Both the scope of patent law and available remedies differ around the world. This means that allowing damages in U.S. courts for sales and uses overseas could undermine the autonomy of nations that have chosen not to extend patent law to certain fields. Moreover, allowing extraterritorial damages might encourage other nations' courts to impose damages for sales and use in the United States, thereby undermining U.S. sovereignty.

ARGUMENT

I. Patent Damages Based on Extraterritorial Activity Conflict with the Statutory Text

Although the parties center their dispute on the extraterritoriality rule of *RJR Nabisco, Inc. v. European Community*, 136 S. Ct. 2090 (2016), the easier and correct path to resolving this case is in the plain statutory text: damages for patent infringement should be limited to domestic acts, because the Patent Act declares extraterritorial activity to be outside the scope of infringement. First, the express terms of § 271(a) include territorial limitations, which make clear that patentees cannot recover damages for overseas sales or uses of infringing products. As one commentator has noted, "it is hard to imagine a starker expression of territorial limits" in a statute. Timothy R. Holbrook, *Boundaries, Extraterritoriality, and Patent Infringement Damages*, 92 Notre Dame L. Rev. 1745, 1779 (2017). Likewise, the Congressional intent underlying § 271(f) is clear. The statute was enacted for the narrow purpose of closing a loophole in § 271(a). That is all. Accordingly, this Court should rule that remedies awarded for infringement under § 271(f) are subject to the same territorial limitations applicable to remedies awarded for infringement under § 271(a).

These statutory provisions give legal force to the "traditional understanding that our patent law operates only domestically and does not extend to foreign activities." *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 455 (2007) (quoting Alan M. Fisch & Brent H. Allen, *The Application of Domestic Patent Law to Exported Software: 35 U.S.C. § 271(f)*, 25 U. Pa. J. Int'l Econ. L. 557, 559 (2014))

(punctuation and alterations omitted). That is sufficient to dispose of this case. Petitioner's argument that § 284 offers compensation for infringing acts conducted outside the United States would essentially render extraterritorial acts infringing contrary to § 271(a) and (f), and therefore cannot be correct.

A. Section 271(a) Is Expressly Limited to Domestic Conduct

Under § 271(a) of the Patent Act, a direct infringer is one who:

> . . . without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention.

The phrase "within the United States" expressly limits the statute to activity conducted within this country's borders. Indeed, before this statute was enacted, this Court strictly enforced the same rule. *See Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 650 (1915) (holding that "there could be no recovery of either profits or damages" for allegedly infringing "drills . . . sold by the defendants . . . in Canada" because "no part of the transaction occur[ed] within the United States" and "[t]he right conferred by a patent under our law is confined to the United States and its territories"); *Brown v. Duchesne*, 19 U.S. (1 How.) 183, 195-96 (1856) (stating that "the use of [patented invention] outside of the jurisdiction of the United States is not an infringement of [the patentee's] rights, and [the patentee] has no claim to any compensation for the profit or advantage the party may derive from it").

Recently, patentees in both *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013) and *Carnegie Mellon University v. Marvell Technology Group, Ltd.*, 807 F.3d 1283 (Fed. Cir. 2015), reh'g en banc denied in part, 805 F.3d 1382 (Fed. Cir. 2015), sought to avoid § 271(a)'s territorial limitations by seeking to recover foreign damages that were arguably caused by domestic infringement. In the first case, Power Integrations presented evidence that power supply manufacturers typically incorporate the same semiconductor chip in all units of a particular power supply model, including units sold outside the United States. *See* Non-Confidential Brief for Plaintiff-Cross Appellant Power Integrations, Inc. at 44, *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013) (Nos. 2011-1218, 2011-1238), 2011 WL 2827447. Thus, Power Integrations argued that losing domestic sales also caused it to lose sales worldwide, and it sought lost profits for all those sales.

Similarly, Carnegie Mellon argued that infringing uses that occurred in the United States during Marvell's sales cycles (which involved design, testing, and customer feedback) allowed Marvell to make foreign sales of semiconductor chips that otherwise had no connection to the United States (*i.e.* that were made, purchased, and used abroad). Accordingly, Carnegie Mellon sought a reasonable royalty on those overseas sales. *See* Bernard Chao, *Patent Imperialism*, 109 Nw. U. L. Rev. Online 77 (2014) (discussing the facts of *Power Integrations* and *Marvell* in more detail).

The Federal Circuit rejected the worldwide causation theory in both *Power Integrations* and *Marvell*. This

was the correct result. Section 271(a)'s explicit territorial limitations should also apply to remedies. Otherwise, a law Congress expressly drafted to only regulate domestic conduct would expand to regulate international sales and uses. Petitioner understandably wants the Court to focus on § 284, since that provision does not include an express territorial limitation. But the fact that a more general provision for remedies appears in a different statutory section is of little weight. *See Hughey v. United States*, 495 U.S. 411, 419 (1990) (applying the "principle of *ejusdem generis*—that a general statutory term should be understood in light of the specific terms that surround it"). The general term in § 284, calling for "damages adequate to compensate for the infringement," must be understood in light of § 271(a)'s specific limitation of infringement to domestic acts, and not in a way that opens a loophole to rendering foreign activity infringing.

This Court should reject international damages whether it considers the question through the *RJR Nabisco* framework or through the more general framework of proximate cause. Applying *RJR Nabisco*, the Court should construe § 271 and § 284 together in light of the strong presumption against extraterritoriality. Considering § 284 in isolation would allow its general language to override Congress' clearly stated intent in § 271.[2] More general

2. This Court considered an analogous situation in *Hughey*, where the government argued that a "catchall phrase" in 18 U.S.C. § 3580(a), which concerned the amount of restitution under the Victim and Witness Protection Act of 1982, allowed it to impose restitution for crimes other than the offense of conviction. *See* 495 U.S. at 418. This Court found that it would be "anomalous" to allow such general language in a remedial provision to trump the more specific provision "which governs the court's authority." *Id.*

principles of proximate cause should lead to the same result. *See* Brief of Intellectual Law Professors In Support of Neither Party at 20 (noting that proximate cause "is complex inquiry that includes policy and justice, similar to the concerns that underlie the presumption [against extraterritoriality] itself"). International uses and sales, which are expressly not covered by the Patent Act, should be considered intervening acts that cut off the chain of causation begun by an act of domestic infringement.

This approach, like the *Power Integrations* and *Marvell* decisions, does not prevent patentees from recovering damages for domestic infringement. Patentees remain free to seek either lost profits or reasonable royalties for the infringer's domestic sales.

Although WesternGeco has not explicitly argued that this Court should overturn *Power Integrations* and *Marvell*, the Solicitor General had made this argument. *See* Government Petition Br. at 19 (arguing that the Federal Circuit made the "same analytical error" in *Power Integrations*, *Marvell*, and the current dispute); *cf.* Petitioner Br. at 46-49 (dismissing concerns with allowing "damages for domestic misconduct [to include] foreign lost profits or foreign lost wages"). The reason why this case has such potentially important implications to the patent world is that if the Court sides with WesternGeco, it may either intentionally or unintentionally open the doors to recovering overseas damages in § 271(a). Such an outcome would dramatically increase the amount of damages that U.S. patentees could recover. For example, in *Marvell*, worldwide damages were calculated to be in excess of a billion dollars while domestic damages were substantially lower, somewhere between one hundred sixty to two

hundred eight million dollars. Chao, *supra*, 109 Nw. U. L. Rev. Online at 89; *see also Power Integrations v. Fairchild Semiconductor*, 711 F.3d 1348, 1375 (Fed. Cir. 2013) (worldwide damages were approximately 4 to 5 times larger than domestic damages). But excessive damages are not the only downside to WesternGeco's position: a decision eliminating the territorial limitations on patent damages will disrupt how the international patent system currently operates. *See* Part II *infra*.

B. Section 271(f) Also Focuses on Domestic Conduct

Even though the text of § 271(f) refers to acts that occur outside this country, that language does not mean that the statute allows patentees *to recover damages* for overseas conduct. Like § 271(a), § 271(f) is focused on domestic conduct.[3] Indeed, WesternGeco concedes this point characterizing § 271(f) as "target[ing] domestic conduct undertaken with an intent to facilitate foreign combinations." Petitioner Br. at p. 2.

Congress enacted § 271(f) in response to a gap in §271(a) that was exposed in a prior Supreme Court decision, *Deepsouth Packing Co. v. Laitram*, 406 U.S. 518 (1972). In that case, the defendant, Deepsouth, was

---

3. Section 271(f)(1) states: "Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer."

found liable for making shrimp deveining machines that infringed Laitram's patent. However, part of Deepsouth's business also involved making individual parts of its deveining machines, and then exporting the components in separate boxes for assembly abroad. *Id.* at 524. Deepsouth argued that this conduct should not be considered infringement under § 271(a) because the individual parts were not patented. Laitram countered that Deepsouth was effectively selling the entire product. *Id.* at 527. The Supreme Court sided with Deepsouth holding that the defendant's acts did not violate § 271(a) because the potentially infringing conduct—making the entire infringing product—took place abroad. *Deepsouth* is important for two reasons. First, it shows how seriously this Court has viewed the presumption against the extraterritorial application of U.S. laws in the patent context.

Second, and more importantly for the current case, the decision motivated Congress to pass § 271(f). Congress' intent was clear. The Senate Report specifically says, "[t]his provision is a response to the Supreme Court's 1972 *Deepsouth* decision . . ." S. Rep. No. 98-663, at 2-3 (1984). The legislation had no loftier goals like extending patent damages extraterritorially, beyond what would be recoverable under § 271(a). Indeed, the Senate Report went on to say, "The bill simply amends the patent law so that when components are supplied for assembly abroad to circumvent a patent, the situation will be treated the same as when the invention is 'made' or 'sold' in the United States." S. Rep. No. 98-663, at p. 3. There was no intent to expand patent *remedies* to encompass overseas conduct. But as the Federal Circuit astutely noted below, that is what the petitioner is seeking. *WesternGeco L.L.C. v. ION*

Geophysical Corp., 791 F.3d 1340, 1351 (Fed. Cir. 2015) ("A construction that would allow recovery of foreign profits would make § 271(f), relating to components, broader than § 271(a), which covers finished products."). Of course, WesternGeco may also be seeking to upend § 271(a) damages law as well. But that view is inconsistent with § 271(a)'s explicit territorial limitations.

To be the perfectly clear, the issue in this case is not whether WesternGeco can recover damages. It can, and it has. *WesternGeco*, 791 F.3d at 1351 ("WesternGeco received such a royalty here."). But the focus of that inquiry was on Ion's acts of domestic infringement under § 271(f), not on any downstream sales made by Ion's foreign customers.

When Congress enacted § 271(f), it only intended to close the *Deepsouth* loophole so that the exportation of components that make up a larger infringing product would be treated just like exporting the entire infringing product itself. It did not intend to expand patent remedies extraterritoriality. With that understanding in mind, the Court need look no further than the express limits found in § 271(a) and the undisputed Congressional Record of § 271(f). Patentees can only recover for damages based directly on domestic acts of infringement. They cannot recover for damages that were caused by foreign acts of infringement that were in turn caused by domestic acts of infringement. Such damages are simply too remote and circumvent the express limitations found in the patent statutes.

II. This Court Should Not Allow Extraterritorial Damages in Patent Cases

The Patent Act's domestic focus is good policy. Allowing worldwide damages, in contrast, would cause a wide array of harms and distortions. These harms fall into three broad categories. First, exposing companies that conduct research and development in the United States to worldwide damages will discourage companies from investing here. Second, allowing worldwide damages will overcompensate patent owners by inflating already large awards. Finally, extraterritorial damages will interfere with other nations' patent systems and, in turn, may encourage other nations to interfere with U.S. policy.

These harms will be most acute if the Court announces a rule broad enough to allow extraterritorial damages under § 271(a). Many acts of alleged infringement under § 271(a)—such as use in domestic product development—could conceivably be seen as a proximate cause of wholly overseas sales and uses. Damages for overseas sales in such cases would expose U.S. companies (and only U.S. companies) to worldwide liability. Petitioner argues that "allowing lost foreign sales to form a measure of damages for domestic misconduct raises no serious question of international law and no serious prospect of international discord." Petitioner Br. 46. This is wrong. Allowing damages for foreign sales would upend the international patent system and, ultimately, would harm U.S. innovation.

A. A Worldwide Damages Regime Would Discourage Companies from Conducting Research and Development in the United States

To see how worldwide damages would harm U.S. innovation, consider how such a regime might impact two hypothetical companies. Two companies, a domestic one A and a foreign one B, design and test semiconductor chips and contract with a foreign manufacturer to produce their designs. A patent owner claims that both companies' testing processes infringe a patent, and demands damages for the manufactured chips on the theory that those chips' manufacture and sale are proximately and factually caused by the infringing testing. If the Solicitor General's damages theory is accepted, Company A could be liable for a reasonable royalty on its worldwide sales. In contrast, Company B would likely only be liable for royalties on its U.S. sales. This would effectively punish Company A for conducting research and development in the United States.

This hypothetical example is not far-fetched. Rather, it is directly inspired by the facts of *Marvell*. In *Marvell*, the patent owner argued that it should be entitled to world-wide royalties because Marvell's international sales were a foreseeable consequence of domestic research and development. *See Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*, 986 F. Supp. 2d 574, 638 (W.D. Pa. 2013) (noting that CMU sought damages resulting "from Marvell's use of the patented methods during research, development, chip design, qualification, [and] use of engineering samples" in the United States). The district court awarded over $1.5 billion in damages for past

infringement, most of which related to chips that never entered the United States. *Marvell*, 807 F.3d at 1288. As noted above, the Federal Circuit vacated most of damages award, allowing the recovery of a reasonable royalty only on chips imported into the U.S. (the court remanded for a partial new trial to determine the location of the sale of other Marvell chips). *See id.*

The government argues that the Federal Circuit erred in *Marvell* and that this Court should abandon the presumption against extraterritorial damages, even in cases brought under § 271(a). *See* United States Petition Br. at 19; *see also* AIPLA Br. at 20-21 (suggesting that an international "proximate cause" standard would at least leave open the possibility of international damages in cases like the *Marvell*). But extraterritorial damages would drastically disadvantage U.S. companies like Marvell compared to their international competitors because they would be uniquely vulnerable to claims for worldwide royalties.

No concomitant domestic benefit accrues to countervail this disincentive upon domestic industry. United States patent owners stand to win greater damages awards should foreign activity count as infringement, but most United States patent owners are not United States companies: in recent years, more than 50% of U.S. patents have been issued to foreign entities. *See* USPTO, *U.S. Patent Statistics Chart Calendar Years 1963 – 2015*, URL *supra* p. vii. To return to the hypothetical example above, both Company A (the domestic chip company) and Company B (the foreign chip company) may apply for U.S. patents on their innovations. But if the companies assert some of their respective patents against each other, Company

B could claim that Company A's infringement through U.S. research and development entitles it to royalties on Company A's global sales. In contrast, Company A would only be able to seek royalties on Company B's U.S. sales. This imbalance would play out in all industries where U.S. companies conduct research and development at home but compete globally.

If for some reason Congress *wants* to enable foreign owners of U.S. patents to punish American companies with worldwide damages, it is free to do so through legislation. But that is a matter for the legislative branch to decide. The presumption against extraterritoriality exists so that radical policy changes only occur as a result of clear statutory language drafted after consideration of all the issues. *See Microsoft Corp.*, 550 U.S. at 454–55.

B. A Worldwide Damages Regime Will Lead to Overcompensation for Patent Owners

A ruling that allows extraterritorial damages in patent cases, especially if the Court's reasoning extends to cases brought under § 271(a), may allow inventors who obtain both U.S. and foreign patent rights to recover damages twice. Patent owners could recover damages once by asserting U.S. patent rights against domestic uses to recover a royalty reflecting the value of all uses worldwide, and again by asserting foreign patent rights in foreign nations where the patented technology was principally used.

As this Court has recognized, a company that wishes to protect its innovations in overseas markets should apply for patents in those markets. *See Microsoft Corp.*, 550

U.S. at 439 ("[F]oreign law alone, not United States law, currently governs the manufacture and sale of components of patented inventions in foreign countries [and thus,] [i]f [a patentee] desires to prevent copying in foreign countries, its remedy today lies in obtaining and enforcing foreign patents."). Under the present regime of international patent law, individual countries issue and enforce their own patents. As a result, "an inventor seeking worldwide protection for her creation would have to obtain a patent in every country that offers patent protection." Martin J. Adelman, et al., Global Issues in Patent Law 1 (2011). Indeed, the preamble to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) recognizes the need to provide for the "effective and appropriate means for the enforcement of trade-related intellectual property rights, taking into account differences in national legal systems." Agreement on Trade-Related Aspects of Intellectual Property Rights, adopted by United States Dec. 8, 1994, 1869 U.N.T.S. 299.

Inventors who do obtain both U.S. and foreign patent rights may be able to obtain double recovery for the same conduct: once by asserting a U.S. patent against domestic use to recover a worldwide royalty, and once again by asserting foreign patent rights in foreign nations where the technology was actually used and infringed. Although this Court ruled in favor of international exhaustion in *Impression Prods., Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523 (2017), it is not clear that nations will uniformly conclude that patent rights issued by their governments are exhausted (or will otherwise deny recovery) under these facts. *See, e.g.*, WIPO Standing Committee on the Law of Patents, Exceptions and Limitations to Patent Rights: Exhaustion of Patent Rights at 3 (Oct. 6, 2014),

URL *supra* p. vii (finding that some nations apply national exhaustion, some apply regional exhaustion, some apply international exhaustion, and others apply a mixed regime).

If permitted, double recovery of this nature may result in extreme overcompensation. For many technologies, the cumulative total of worldwide foreign use exceeds domestic use in the United States.[4] In the *Power Integrations* litigation, the ratio was greater than four-to-one. *See* 711 F.3d at 1370 (noting that the district court concluded that just 18% of the jury verdict "represented U.S. sales for which Fairchild was liable by way of inducement"). Given such ratios, the possibility of recovering extraterritorial damages in U.S. courts could effectively transform U.S. patent law into an international patent law. *See* Chao, *Patent Imperialism*, 109 Nw. U.L. Rev. at 87.

Excessive damages can overly deter potential infringers from engaging in beneficial commercial activity and conversely, overly encourage efforts to monetize patents through aggressive enforcement. *See, e.g.*, Douglas Melamed, *Over-Rewarding Patenting: You Get What You Pay For*, 39 Harv. J.L. & Pub. Pol'y 59, 60 (2016) ("[E]xcessive remedies for patent infringement not only overcompensate patent holders, but also reduce both product output and invention itself."). Moreover, the

4. *See, e.g.*, Tess Townsend, *Here's where Alphabet makes its money*, Recode (April 29, 2017), *URL supra* p. vi. (noting that Google's parent company makes more than 50% of its revenue outside the United States); Jeff Dunn, *Here's how Apple's iPhone sales break down by region*, Business Insider (March 20, 2017), URL *supra* p. vi. (noting that more than 70% of Apple's global iPhone sales in 2016 took place overseas).

deterrent effect of excessive extraterritorial damages will apply with particular force to companies that conduct research and development in the United States (because these are the companies most at risk of having damages awards applied to their global sales). When patent law deters domestic research and development, it serves the exact opposite of its intended purpose.

C. A Worldwide Damages Regime Will Undermine Other Nations' Domestic Patent Policies

Just as U.S. patent law is domestic law, the patent law of other nations is their domestic law. While the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) has resulted in a fair degree of uniformity among patent laws, nations still retain discretion in how to structure their patent system. Moreover, treaties such as TRIPS are not immutable. Treaties can be amended and nations may elect to withdraw from such agreements. Ultimately, all nations retain discretion over how to structure their patent law and patent system. A regime where one nation's law effectively provides for worldwide damages, and thus a worldwide patent regime, undermines this sovereignty.

Patent owners pursuing extraterritorial damages in U.S. courts could be seeking orders inconsistent with the domestic patent law of the nation where the sales took place. Appearing as an *amicus* in this case, Power Integrations suggests that it should be able to "rel[y] on the U.S. patent system" to protect it against lost foreign sales. *See* Power Integrations Br. at 1, 3. If allowed, this use of the U.S. patent system risks undermining international sovereignty. Other countries may have

expressly chosen to provide different remedies or may not even extend their patent system to cover the systems or methods at issue.

In other words, a holding allowing extraterritorial damages would encourage companies to leverage U.S. patent litigation to evade more restrictive patent regimes in force in foreign nations. *See* Chao, *supra*, 109 Nw. U.L. Rev. Online at 86-88 (making this argument in greater detail). Compared to the United States, many foreign nations provide much more modest remedies for patent infringement. The median damages award in a U.S. patent case between 2012 and 2016 was about $5.8 million. *See* PricewaterhouseCoopers, 2017 Patent Litigation Study, URL *supra* p. vi. These amounts are substantially higher than those awarded in other jurisdictions. *See* Nicolas van Zeebroeck & Stuart Graham, *Comparing Patent Litigation Across Europe: A First Look*, 17 Stan. Tech. L. Rev. 655 (2014); Xiaowu Li & Don Wang, *Chinese Patent Law's Statutory Damages Provision: The One Size That Fits None*, 26 Wash. Int'l L.J. 209, 211 (2017) (the "average damages awarded in patent infringement cases in China from 2006 to 2013 [was] a mere RMB 118,266.00 (approximately $18,253.00)"). The massive divergence in potential remedies will strongly encourage companies to seek damages in U.S. courts rather than in the foreign nations where the infringement actually took place.

Differences in patent scope across jurisdictions raise similar concerns. To take one important field, patent laws differ markedly regarding the patentability of software. In 2013, New Zealand amended its Patent Act to provide that "[a] computer program is not an invention and not a manner of manufacture for the purposes of this Act."

Section 11(1) of the Patents Act of 2013 (N.Z.). This reform was enacted with the overwhelming support of New Zealand's domestic software industry. *See* Christopher Mims, *How New Zealand banned software patents without violating international law*, Quartz (August 28, 2013), URL *supra* p. v. (noting that a poll of the Institute of IT Professionals revealed that 94% were in favor of banning software patents). India also does not allow software patents. *See* Vindhya S. Mani et. al., *The Indian Patent System: A Decade in Review*, 8 Cybaris An Intell. Prop. L. Rev. 1, 41-47 (2017). In contrast, Japan's patent law is generally understood to be far more permissive toward patent claims directed to software. *See* Japan Patent Office, Examination Guidelines for Patent and Utility Model in Japan, pt. 3, ch. 1 (Eligibility for Patent and Industrial Applicability), Sec. 2.2.2 at p. 6-7 (2017), URL *supra* p. v. In the United States, the law has moved from the Federal Circuit's very permissive standard under *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994), to a more restrictive rule that declares abstract software patents ineligible. *See Alice Corp. Pty. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014). In sum, nations have made radically different choices about whether and how patents should impact software development, sales, prices, and consumer choice.

Software is not the only area of substantive patent law with international variation. Indian law provides that "the mere discovery of a new form of a known substance which does not result in the enhancement of the known efficacy of that substance" is not patentable. Section 3(d) of The Patents Act, 1970 as amended by The Patents (Amendment) Act, 2005 (India). In practice, this imposes a higher utility standard on pharmaceutical inventions as compared to U.S. patent law. *See* Javier

Esparza, *Indian Patent Law: Working Within the Trips Agreement Flexibilities to Provide Pharmaceutical Patent Protection While Protecting Public Health*, 24 J. Transnat'l L. & Pol'y 205, 214–15 (2015) (contrasting the approaches of the Federal Circuit and the Indian Supreme Court).

Differences in patent law across jurisdictions mean that a U.S. company could develops a product covered by the claims of a U.S. patent that would not be patentable in another nation. For example, a patent owner might claim that allegedly infringing U.S. research and development is a proximate cause of New Zealand or Indian sales and seek royalties on those sales, even though the relevant product or method could not be patented in New Zealand or India. Any damages award in such a case would undermine foreign sovereignty because it would conflict with policy choices that those nations reached through the democratic process after careful debate. *See* Chao, *Patent Imperialism*, 109 Nw. U.L. Rev. at 86-88.

U.S. policymakers would be extremely disconcerted if the circumstances were reversed and another country tried to impose its domestic patent rules on products made and sold in the United States. For example, since Japan takes an approach to the patentability of software that is more expansive than in the United States, it would undermine U.S. sovereignty if a Japanese court awarded damages for U.S. sales for infringement of a Japanese patent that would not be eligible under U.S. law. Ultimately, allowing extraterritorial damages in U.S. cases could encourage other nations to do the same with their own patent law, which would undermine U.S. sovereignty.

CONCLUSION

For the foregoing reasons, the decision of the Court of Appeals should be affirmed.

April 2, 2018 Respectfully submitted,

BERNARD CHAO
Associate Professor
UNIVERSITY OF DENVER
STURM COLLEGE OF LAW.
2255 East Evans Avenue
Denver, CO 80208
(303) 871-6110

DANIEL K. NAZER
Counsel of Record
ELECTRONIC FRONTIER
FOUNDATION
815 Eddy Street
San Francisco, CA 94109
(415) 436-9333
daniel@eff.org

BRIAN J. LOVE
Assistant Professor
SANTA CLARA UNIVERSITY
SCHOOL OF LAW
500 El Camino Real
Santa Clara, CA 95053
(408) 554-4783

CHARLES DUAN
R STREET INSTITUTE
1212 New York Avenue, NW
Suite 900
Washington, DC 20005
(202) 525-5717

Counsel for Amici Curiae

No. 16-1011

IN THE

Supreme Court of the United States

WESTERNGECO LLC,

Petitioner,

v.

ION GEOPHYSICAL CORPORATION,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR FAIRCHILD SEMICONDUCTOR INTERNATIONAL, INC., THE INTERNET ASSOCIATION, SAS INSTITUTE INC., SYMMETRY, LLC, AND XILINX, INC. AS *AMICI CURIAE* SUPPORTING RESPONDENT

DEREK L. SHAFFER
QUINN EMANUEL URQUHART & SULLIVAN, LLP
1300 I Street NW, Suite 900
Washington, D.C. 20005
(202) 538-8000

KATHLEEN M. SULLIVAN
Counsel of Record
CLELAND B. WELTON II
QUINN EMANUEL URQUHART & SULLIVAN, LLP
51 Madison Ave., 22nd Floor
New York, NY 10010
(212) 849-7000
kathleensullivan@quinnemanuel.com

Counsel for Amici Curiae

April 2, 2018

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20002

TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES ii

INTERESTS OF *AMICI CURIAE* 1

INTRODUCTION AND SUMMARY OF ARGUMENT 2

ARGUMENT 3

I. THE FEDERAL CIRCUIT PROPERLY APPLIED THE PRESUMPTION AGAINST EXTRATERRITORIALITY TO PRECLUDE RECOVERY OF PATENT DAMAGES FOR FOREIGN INJURIES 3

A. Foreign Injuries Are Not Compensable Under U.S. Law Absent A Clear Statement Of Congressional Intent 4

B. The Patent Act Does Not Create A Private Right Of Action To Recover For Foreign Injuries 7

C. The Patent Act Does Not Depart From The Traditional Presumption Against Extraterritoriality 11

II. A CONTRARY HOLDING WOULD HAVE NEGATIVE POLICY CONSEQUENCES BOTH FOR THE PATENT SYSTEM AND U.S. BUSINESSES 22

CONCLUSION 26

TABLE OF AUTHORITIES

Page

Cases

Astoria Fed. Savings & Loan Ass'n v. Solimino,
501 U.S. 104 (1991) 18

Carnegie Mellon University v. Marvell Technology Group,
807 F.3d 1283 (Fed. Cir. 2015).....3, 15, 25, 26

Deepsouth Packing Co. v. Laitram Corp.,
406 U.S. 518 (1972) 2-3, 9, 18

Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.,
235 U.S. 641 (1915) 20, 21

Goulds' Manufacturing Co. v. Cowing,
105 U.S. 253 (1881) 19, 20

Kiobel v. Royal Dutch Petroleum Co.,
569 U.S. 108 (2013) 19

Limelight Networks, Inc. v. Akamai Techs., Inc.,
134 S. Ct. 2111 (2014) 9

Martha's Vineyard Scuba Headquarters, Inc. v. Unidentified, Wrecked, and Abandoned Steam Vessel,
833 F.2d 1059 (1st Cir. 1987)..... 13

Microsoft Corp. v. AT&T Corp.,
550 U.S. 437 (2007) 2, 18, 21, 22

Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc., 711 F.3d 1348 (Fed. Cir. 2013).....1, 4, 14, 25

RJR Nabisco, Inc. v. European Community, 136 S. Ct. 2090 (2016) 4-13, 16-18

Smith v. United States, 507 U.S. 197 (1993) 14

Sosa v. Alvarez-Machain, 542 U.S. 692 (2004) 19

Statutes

18 U.S.C. 1962..... 5-7, 12, 17

18 U.S.C. 1964(c).....5, 7, 10, 12, 16, 17

35 U.S.C. 154(a)(1)..... 21

35 U.S.C. 271.....9, 18, 19, 21

35 U.S.C. 271(a) 1, 9, 14

35 U.S.C. 271(b) 9

35 U.S.C. 271(c)..... 9

35 U.S.C. 271(f) 8, 9, 14, 18

35 U.S.C. 271(f)(1)..... 8

35 U.S.C. 271(f)(2)..... 8

35 U.S.C. 281..... 9, 10, 17

35 U.S.C. 284..... 1, 9, 10, 16-18, 21, 26

Other Authorities

Agreement on Trade-Related Aspects of Intellectual Property Rights, *adopted*, 1869 U.N.T.S. 299 (Dec. 8, 1994)..... 22

Bernard Chao, *Patent Imperialism*, 109 Nw. U. L. Rev. 77 (2014) 23

PriceWaterhouseCoopers, 2017 Patent Litigation Study: Change on the horizon? (May 2017)..... 23

Thomas F. Cotter, *Patent Damages in France*, Comparative Patent Remedies (Oct. 5, 2016) 23

INTERESTS OF *AMICI CURIAE*[1]

Amicus Fairchild Semiconductor International Inc. ("Fairchild") is a U.S.-based semiconductor manufacturer with a worldwide presence. Founded in 1957, Fairchild was a pioneer in the field of integrated circuit design and manufacturing with its employees going on to found many famous Silicon Valley companies, like Intel. Fairchild's storied legacy of being a lead innovator continues today as the company presently holds thousands of issued U.S. and foreign patents. Fairchild has a strong interest in this case because the rule adopted here will have an important effect upon its sales and manufacturing operations in the global economy, and because the decision below reaffirms and extends the Federal Circuit's earlier decision in *Power Integrations, Inc. v. Fairchild Semiconductor International, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013), *cert. denied*, 134 S. Ct. 900 (2014). In *Power Integrations*, the Federal Circuit correctly held, in the context of a patent-infringement claim under 35 U.S.C. 271(a), that the presumption against extraterritorial application of U.S. patent law bars the award of patent infringement damages based on foreign sales under 35 U.S.C. 284. Fairchild has relied on *Power Integrations* both in its ongoing business operations and in

---

[1] Pursuant to Rule 37.6, *amici* affirm that no counsel for a party authored this brief in whole or in part, and that no party, counsel for a party, or any person other than *amici* and their counsel made a monetary contribution intended to fund the preparation or submission of the brief. All parties have consented to the filing of this brief.

subsequent litigation, where it has had an important damages-limiting effect.

Amici the Internet Association, SAS Institute Inc., Symmetry, LLC, and Xilinx, Inc. are or advocate for leading companies that operate internationally and offer innovative products and services that drive the economy. *Amici* and their members have experience both in patent litigation—most often defending against abusive infringement assertions—and in the development and management of their own technologically and geographically diverse patent portfolios. In obtaining their patent assets, *amici* and their members often make business decisions based on specific rules of the individual and varied patent regimes around the world. For these companies, it is critical to understand which country's rules govern which activities, to avoid inconsistent rules, and to avoid duplicative obligations. In the view of these *amici*, a patent system in the United States that extends to injuries beyond U.S. borders raises significant practical concerns.

INTRODUCTION AND SUMMARY OF ARGUMENT

Amici agree with Respondent that the presumption against extraterritorial application of U.S. patent law applies to damages as well as liability. This Court has long held that "[t]he presumption that United States law governs domestically but does not rule the world applies with particular force in patent law." *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454-55 (2007); *see, e.g.*, *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972) ("Our patent system makes no claim to extraterritorial ef-

fect..., and we correspondingly reject the claims of others to such control over our markets.").

The territorial system of patents would suffer just as much harm from the extension of damages beyond national borders as from the extension of liability. *Amici*, who have or whose members have operations and customer relationships that cross-cut national borders, write separately here to express agreement with Respondent's argument and to underscore the negative practical consequences that would ensue if Petitioner's and the Government's positions were adopted. In *amici*'s view, robust enforcement of the presumption against extraterritoriality is all the more important in an increasingly global economy. Reversal here would invite imposition of increased risk on U.S. businesses for patent injuries that occur abroad, inhibiting the ability of high-tech companies and others to innovate, without any clear statement that Congress intended such a result. The decision below should be affirmed.

ARGUMENT

I. THE FEDERAL CIRCUIT PROPERLY APPLIED THE PRESUMPTION AGAINST EXTRATERRITORIALITY TO PRECLUDE RECOVERY OF PATENT DAMAGES FOR FOREIGN INJURIES

As the Federal Circuit has recognized in a series of decisions culminating in the decision below, the extraterritoriality principle confines not only patent liability but also "the damages that are to be imposed for domestic liability-creating conduct." *Carnegie Mellon University v. Marvell Technology Group*, 807 F.3d 1283, 1306 (Fed. Cir. 2015). For ex-

ample, in *Power Integrations*, 711 F.3d at 1371-72, the Federal Circuit held that "the entirely extraterritorial production, use, or sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement," and thus overturned an award of lost profits based on non-infringing foreign sales.

That line of Federal Circuit decisions is correct, and the Court should affirm the decision below, which properly extends that precedent to apply the presumption against extraterritoriality here. As most recently articulated in *RJR Nabisco, Inc. v. European Community*, 136 S. Ct. 2090, 2106-08 (2016), that presumption bars interpreting a federal statute to enable a plaintiff to obtain "recovery for foreign injuries" unless Congress has specifically provided for such recovery. Because Congress made no such provision here, Petitioner's claim for "foreign lost profits" should fail.

A. Foreign Injuries Are Not Compensable Under U.S. Law Absent A Clear Statement Of Congressional Intent

This Court's extraterritoriality analysis in *RJR Nabisco* provides a roadmap to answering the question presented in this case. There, too, the Court confronted putative regulation of conduct occurring abroad. There, the Court looked first to whether the statutory provisions reflected a Congressional intent to regulate such conduct abroad, and second to whether the provisions authorized a private right of action with extraterritorial reach.

Specifically, in *RJR Nabisco*, several European government entities sued RJR and related companies, alleging a racketeering scheme involving fraud and money-laundering. 136 S. Ct. at 2098. The plaintiff governments claimed that these activities caused them injury in Europe through, *inter alia*, "competitive harm to their state-owned cigarette businesses, lost tax revenue from black-market cigarette sales, harm to European financial institutions, currency instability, and increased law enforcement costs." *Id.* The question presented was whether RICO provided a private cause of action to compensate for such injuries suffered abroad.

As the Court explained, that question "really involve[d] two questions":

> First, do RICO's substantive prohibitions, contained in [18 U.S.C.] 1962, apply to conduct that occurs in foreign countries?
>
> Second, does RICO's private right of action, contained in [18 U.S.C.] 1964(c), apply to injuries that are suffered in foreign countries?

Id. at 2099 (paragraph break added). The Court applied the traditional presumption against extraterritorial application of U.S. law to each question, *see id.* at 2101-11, but its approaches to applying the presumption differed as between the two questions.

As to the first question—concerning "conduct that occurs in foreign countries"—the Court applied a "two-step framework":

> At the first step, we ask whether the presumption against extraterritoriality has been rebutted—that is, whether the statute gives a clear,

> affirmative indication that it applies extraterritorially. We must ask this question regardless of whether the statute in question regulates conduct, affords relief, or merely confers jurisdiction.
>
> If the statute is not extraterritorial, then at the second step we determine whether the case involves a domestic application of the statute, and we do this by looking to the statute's "focus." If the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application even if other conduct occurred abroad; but if the conduct relevant to the focus occurred in a foreign country, then the case involves an impermissible extraterritorial application regardless of any other conduct that occurred in U.S. territory.

Id. at 2101 (paragraph break added). Under this framework, the Court held that Section 1962 of RICO prohibits certain forms of conduct outside the United States, because Congress expressly incorporated "extraterritorial predicates into RICO"—that is, it permitted RICO liability to be premised on specified forms of criminal activity that may take place in foreign countries. *Id.* at 2102. This finding "obviate[d]" the step-two "'focus' inquiry," because the "scope of an extraterritorial statute" such as Section 1962 "turns on the limits Congress has (or has not) imposed on the statute's foreign application, and not on the statute's 'focus.'" *See id.* at 2101 & n.5, 2102-03.

The Court did not expressly identify the "focus" of Section 1964(c)'s private-right-of-action provision. Instead, the Court simply explained that "[n]othing in § 1964(c) provides a clear indication that Congress intended to create a private right of action for injuries suffered outside of the United States." *Id.* at 2108. Absent such a "clear indication," the Court interpreted the statute to mean that a "private RICO plaintiff ... must allege and prove a *domestic* injury" in order to state a claim, *id.* at 2106, and thus ruled that, because the plaintiffs' "RICO damages claims ... rest entirely on injury suffered abroad," they had to be dismissed, *id.* at 2111. This was so even though the conduct underlying the injuries was subject to RICO's substantive provisions via Section 1962, *see id.* at 2106, 2108: All that mattered for purposes of ascertaining whether Section 1964(c)'s private right of action could provide a remedy for the asserted injuries was that the situs of those injuries was outside the United States. *See id.* at 2111. Thus, the Court held that the presumption against extraterritoriality applies to limit recovery under a federal statutory cause of action to damages arising from "domestic injuries." *Id.* That is, the presumption excludes compensation for "foreign injuries" absent a clear Congressional statement to the contrary.

B. The Patent Act Does Not Create A Private Right Of Action To Recover For Foreign Injuries

RJR Nabisco illuminates the right path for construing the Patent Act provisions that are relevant to this case. Here, as in that case, *see id.* at 2099, there are really two questions: The first is whether the Patent Act's substantive provisions (namely, its

definitions of patent infringement) reach outside the United States. And the second is whether the Patent Act's private right of action for enforcing those prohibitions provides relief for foreign injuries. As the Court explained in *RJR Nabisco*, each of these questions must be analyzed separately: "the presumption against extraterritoriality must be applied separately to both [a statute's] substantive prohibitions and its private right of action." *Id.* at 2108.

1. The first question may be addressed quickly. The substantive provisions relevant to this case, 35 U.S.C. 271(f)(1) and 271(f)(2), do not regulate extraterritorial conduct. Rather, they prohibit the "suppl[y] *in or from the United States* [of certain] component[s] of a patented invention," with the intent that the components will be combined into the patented invention outside of the United States. 35 U.S.C. 271(f) (emphasis added). Far from giving the requisite "clear, affirmative indication that it applies extraterritorially," *RJR Nabisco*, 136 S. Ct. at 2101, this statutory language unambiguously does *not* extend to or prohibit the eventual combination of components that may occur abroad. It instead prohibits the supply of device components "in or from the United States," provided only that the supplier act with the requisite *scienter*. As the parties agree (e.g., Pet'r Br. 30; Resp. Br. 27), the statute does *not* prohibit the ultimate foreign combination of the exported components.[2] Thus, contrary to the view of

---

[2] Petitioner's statement of the question presented in this sense misstates the law and mischaracterizes the judgment under review: Section 271(f) does not "prohibit[] combinations occurring outside the United States" (*contra*

one *amicus* (*see* Houston Intellectual Property Law Ass'n Br. 5-9), Section 271(f) does not apply extraterritorially.[3]

Thus, applying Section 271(f) ION's provision of surveying-device components is "a permissible domestic application" of the statute because all of that conduct "occurred in the United States." *RJR Nabisco*, 136 S. Ct. at 2101. But Section 271(f) does not govern third parties' *extraterritorial* combinations of some of ION's products with other components for use in extraterritorial surveying operations, in competition with WesternGeco.

2. That leaves the second question under the *RJR Nabisco* analysis, *see* 136 S. Ct. at 2099: Whether the cause of action for patent infringement under 35 U.S.C 281 and 284 "appl[ies] to injuries that are suffered in foreign countries." This question too is swiftly resolved, because (as in *RJR Nabisco*) "[n]othing in [those provisions] provides a clear indication that Congress intended to create a private right of action for injuries suffered outside of the

---

Pet'r Br. i); it prohibits only the domestic supply of the components that may (or may not) *later* be combined outside the country.

[3] Section 271's other infringement provisions are even more clearly limited to domestic conduct. Section 271(a) requires that infringing conduct occur "within the United States." Induced and contributory infringement under Sections 271(b) and (c) likewise do not reach extraterritorial conduct, since they require a completed act of domestic direct infringement. *See Limelight Networks, Inc. v. Akamai Techs., Inc.*, 134 S. Ct. 2111, 2117 (2014); *Deepsouth*, 406 U.S. at 526.

United States." *Id.* at 2108. Section 281 provides that "[a] patentee shall have remedy by civil action for infringement of his patent," and Section 284 calls for an award of "damages adequate to compensate for the infringement" if the plaintiff prevails. Just like Section 1964(c) of RICO, however, neither Section 281 nor Section 284 says anything about recovery for injuries suffered abroad. As in *RJR Nabisco*, it follows that a patent plaintiff "must allege and prove a *domestic* injury" in order to recover damages for infringement. 136 S. Ct. at 2106.

3. The remaining question is whether the injuries for which Petitioner seeks compensation in this case may be characterized as "domestic" rather than "foreign." *See id.* at 2111 (noting that disputes may arise on this issue). No such characterization is possible. To the contrary, the entire premise of Petitioner's lost-profits claim is that a *foreign* company lost out on *foreign* contracts to other *foreign* entities to perform marine surveys using *foreign* ships *on the high seas*. The injury for which Petitioner seeks compensation is thus based on lost *foreign* sales and lost *foreign* profits, and both Petitioner and the Government are right to describe it as such. *E.g.*, Pet'r Br. 46-47, 54 (claim seeks "lost foreign sales" and "foreign lost profits"); Gov't Br. I (claim seeks "lost profits that the patentee would have earned outside the United States" absent infringement). The presumption against extraterritoriality forecloses any interpretation of Sections 281 and 284, as currently written, as authorizing any such recovery for purely foreign injuries. *See RJR Nabisco*, 136 S. Ct. at 2106.

C. The Patent Act Does Not Depart From The Traditional Presumption Against Extraterritoriality

Petitioner and the Government raise a host of arguments against application of presumption against extraterritoriality as articulated in *RJR Nabisco*—none of which has merit, as Respondent's brief explains. *Amici* write separately to emphasize the errors in three specific arguments that, if accepted, would pose a grave threat to the many U.S. companies that do business overseas (*see* Point II, *infra*). The relevant arguments share the misconception that Petitioner and other patent-holders must be entitled to recover damages for foreign injuries traceable to U.S. infringement. That premise does not hold in view of the presumption against extraterritoriality and Congress's considered judgment *not* to authorize such awards. Petitioner's and the Government's contrary arguments should be rejected.

1. Petitioner is wrong in arguing (Pet'r Br. 28-34, 39-52) that the presumption against extraterritoriality is somehow inapplicable to its claim for damages based on foreign injuries. *First*, *RJR Nabisco* refutes Petitioner's suggestion (Br. 29-30) that the presumption applies only to the question "whether Congress intended to declare conduct occurring outside the United States to be unlawful." To the contrary, the Court "*must* ask" "whether the presumption against extraterritoriality has been rebutted" "*regardless* of whether the statute in question regulates conduct, *affords relief*, or merely confers jurisdiction." 136 S. Ct. at 2101 (emphases added). Indeed, the case-dispositive question in *RJR Nabisco* was not whether the presumption precluded applica-

tion of RICO Section 1962's *substantive* provisions (it did not), but whether Section 1964(c)'s "private right of action ... appl[ies] to injuries that are suffered in foreign countries." *Id.* at 2099.

Petitioner further asserts (Br. 39-40) that, if Congress provides "a cause of action that implicates certain foreign conduct, it does not need to reiterate that intention in the applicable damages provision." This contention too runs up against *RJR Nabisco*, which reversed the Second Circuit on the specific ground that the courts must "separately" apply the presumption both to substantive statutes and to remedial ones. 136 S. Ct. at 2106, 2108. Just as a substantive statute does not govern foreign conduct in the absence of a clear statement from Congress, a remedial statute does not provide relief from a foreign injury unless Congress says so expressly.

The same set of holdings defeats Petitioner's bold contention (Br. 41) that "damages provisions do not implicate the presumption against extraterritoriality at all." Yes, they do. The presumption applies, *inter alia*, to a statute that provides a "private right of action" or otherwise "affords relief," and it governs interpretation of such a statute "separately" from any effect it may have on the underlying substantive regulation. 136 S. Ct. at 2099, 2101, 2106, 2108. And the presumption gives the lie to Petitioner's assertion (Br. 41) that "there is no basis for assuming that Congress did not intend for reasonably foreseeable damages to be fully recoverable just because the domestic violations caused harm that was suffered abroad": The established presumption that Congress does not regulate or provide remedies for events that happen abroad affords ample reason to conclude that

a statute has no extraterritorial effect where it is silent on that issue.

Second, Petitioner is also wrong in contending (Br. 46) that "the concerns that undergird the presumption" support refusing to apply it when interpreting a remedial statute based on a domestic violation. As Petitioner notes (*id.*) the presumption is motivated in part by "international-law concerns about sovereign nations exercising legislative power beyond their borders." Contrary to Petitioner's suggestion, however, "[a]llowing recovery for foreign injuries ... presents the same danger of international friction" that is present with respect to direct regulation of foreign conduct. *See RJR Nabisco*, 136 S. Ct. at 2106-07 (collecting authorities). Reading a remedial statute to reach foreign injuries risks such friction by (among other things) creating the potential for an end-run around a foreign state's preference for a different remedial scheme. Here, there is presumably a reason that Petitioner opted to sue ION in the United States rather than to bring claims in foreign courts against the third parties that actually won the contracts and thus caused it to lose profits. If the countries with jurisdiction over the third parties' surveying operations would not allow a lost-profits remedy, or do not provide patent protection for the inventions here at issue, it risks international discord for U.S. law nevertheless to grant one. *See infra*, at 22-24.[4]

---

[4] Although the surveying operations at issue occurred in international waters, that conduct is subject to the exclusive jurisdiction of the foreign nations under whose flags the third-party surveying vessels sailed. *See, e.g., Mar-*

The risks to comity would be magnified if the Court accepts the United States' invitation (Br. 24-28) to authorize recovery of extraterritorial damages for *all* forms of patent infringement (rather than only for claims under Section 271(f)). For example, the plaintiff in *Power Integrations*, 711 F.3d 1348, which lacked foreign patent coverage for three of its asserted patents, alleged infringement under Section 271(a) based on the defendant's manufacture and sale of a small number of infringing microchips in the United States, and then sought damages based on *foreign* lost profits attributable to the defendant's *worldwide* sales—including chips that were neither made nor sold in the United States—on the theory that the infringer's customers bought the chips on a worldwide basis, such that the defendant sold the foreign chips only as a consequence of its U.S. infringement. *See id.* at 1370. Although the Federal Circuit correctly refused to allow such damages, they would have been permitted under Petitioner's theory here that foreign injuries "can support damages awards as long as they are proximately caused by law-offending activity [such as patent infringement]

---

tha's Vineyard Scuba Headquarters, Inc. v. Unidentified, Wrecked, and Abandoned Steam Vessel, 833 F.2d 1059, 1066 (1st Cir. 1987). And the presumption in any event militates against *any* extraterritorial application of U.S. law, and thus applies equally to conduct occurring in territory not governed by any sovereign. *See Smith v. United States*, 507 U.S. 197, 204 & n.5 (1993) (applying presumption with respect to conduct occurring in Antarctica).

in the United States." Pet'r Br. 46.[5] The result would have been to project U.S. patent law out into the world at large, effectively prohibiting sales of goods patented in the United States—even if such sales would not infringe any patent effective where the sales were made.

Similarly in *Carnegie Mellon*, 807 F.3d 1283, the plaintiff claimed infringement based on the defendant's U.S.-based uses of a patented error-correction method in the design and testing of certain microchips, and then sought a royalty award based on worldwide sales of the defendant's microchips—including chips that were made, sold, and used entirely outside the United States. *See id.* at 1305. The Federal Circuit again correctly rejected this damages claim, but Petitioner's theory here, if adopted, would uphold it—even though the result would be to substantially increase the cost of products that are otherwise outside the reach of U.S. law at the expense of foreign nations whose markets stand to suffer.

Congress could of course decide to accept these risks and to provide a remedy for injuries occurring abroad. But the point of the presumption against extraterritoriality is that Congress should not be understood to have done so absent a clear statement to that effect. And while the risk and extent of such

---

[5] The Court denied certiorari when Power Integrations pressed a similar foreseeability theory to try to overturn the Federal Circuit's decision. *See* Pet. for Writ of Cert., *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, No. 13-269, at 5-7 (explaining theory), *cert. denied*, 134 S. Ct. 900 (2014).

transnational conflict may vary from case to case, that is no reason not to apply the presumption to Section 284: Even the "*potential* for international controversy ... militates against recognizing foreign-injury claims without clear direction from Congress." *RJR Nabisco*, 136 S. Ct. at 2107 (emphasis added). Indeed, whenever (as in the case of Section 284) "such a risk is evident, the need to enforce the presumption is at is apex." *Id.*

2. The Government at least acknowledges that Section 284 is susceptible to the presumption against extraterritoriality, and admits (U.S. Br. 25) at step one of the *RJR Nabisco* analysis that the statute does not provide the requisite clear indication that Congress intended it to apply outside our borders. But the Government nonetheless contends (Br. 25-33) that allowing recovery of *foreign* lost profits under Section 284 would not constitute a *foreign* application of the statute. This is not only wrong but paradoxical.

At the second step of *RJR Nabisco*, the Court asks whether the case at hand involves a foreign application of the statute or a domestic one. *RJR Nabisco*, 136 S. Ct. at 2101. In a case concerning a remedial statute, that question is answered by the location of the particular injury at issue. Thus, the claims in *RJR Nabisco* failed because the plaintiffs' injuries had all been suffered in Europe as a result of unpaid taxes, increased law enforcement costs, and the like. *See id.* at 2098, 2111.[6] By the same reason-

---

[6] The Section 1964(c) claims could theoretically have survived to the extent that they rested on *domestic* inju-

ing, Petitioner's claim in this case for recovery of foreign lost profits must fail, because the injuries at issue were the result of sales lost outside the United States.[7]

The Government attempts to avoid this conclusion by suggesting (*see* U.S. Br. 27, 31) that Section 284 has a different "focus" than RICO Section 1964(c). This is implausible on its face: Both statutes are addressed to providing monetary remedies for violations of separate statutory prohibitions (Section 271 and RICO Section 1962, respectively), so the only reasonable conclusion is that they have equivalent focuses for purposes of the presumption. The very fact that the Government casts about for several different "focuses," rather than settling on just one, strongly suggests it recognizes the dubiousness of its analysis.

In any event, the Government's proposed "focuses" do not lead to a different rule. The concepts of "damages," "compensation," and "the requirement that the [damages] award be 'adequate to compensate' the patentee" (U.S. Br. 29, 31), are not "events" (*contra id.* at 31) or occurrences. Thus, to the extent any of them is Section 284's "focus," the Court must

---

ries resulting from the defendants' foreign RICO violations, but plaintiffs waived such claims. *See id.* at 2111.

[7] Just as the *RJR Nabisco* plaintiffs might have recovered for domestic injuries, Petitioner may recover reasonable royalty damages to compensate for the notional domestic injury caused by ION's domestic acts of infringement—and it has indeed done so, to the tune of $22 million (Pet. App. 139a, 168a, 175a).

identify the "conduct relevant to" that focus—and in each case, that is the injurious conduct that generated the plaintiff's claimed damages. *See RJR Nabisco*, 136 S. Ct. at 2101.

The relevant "conduct" for purposes of Section 284 is *not* the acts constituting domestic infringement (*contra* U.S. Br. 31). Infringement is the focus of the underlying *substantive* statute (Section 271), and to collapse the inquiry would be contrary to the requirement to analyze the statutes "separately." *See RJR Nabisco*, 136 S. Ct. at 2106, 2108; *supra*, at 12. Rather, as *RJR Nabisco* indicates, the relevant conduct is that which directly caused the injuries for which the plaintiff seeks recovery—here, the foreign third-party commercial activity that caused Petitioner to lose sales.

3. Finally, contrary to Petitioner's and the Government's submissions (*e.g.*, Pet'r Br. 48-49; U.S. Br. 28), the presumption against extraterritoriality does not give way to the general rule that a successful patent plaintiff is entitled to "full compensation." While Congress does in general legislate against the backdrop of such common-law rules, *see Astoria Fed. Savings & Loan Ass'n v. Solimino*, 501 U.S. 104, 108 (1991), it likewise legislates against the background principle that its laws are presumed not to operate extraterritorially. And the latter principle carries special weight in this context. Not only does the presumption against extraterritoriality "appl[y] with particular force in patent law," *Microsoft Corp.*, 550 U.S. at 454-55, but this Court specifically alerted Congress to its significance in *Deepsouth*, 406 U.S. at 531. Congress then enacted Section 271(f) *specifically with the presumption against extraterritoriality in*

mind. Rather than include a provision authorizing damages for foreign injuries, however, Congress was careful to limit the new provision to conduct that occurred within the United States. That Congress did not see fit to provide for the kind of recovery that Petitioner and the Government now advocate, even when the Patent Act's territorial reach was top-of-mind, affords powerful confirmation that it intended to privilege the presumption against extraterritoriality over other competing considerations.

Even setting aside Section 271's evidently deliberate silence regarding extraterritorial recoveries, there is good reason for the courts to give greater weight to the presumption against extraterritoriality than to a common-law rule favoring "full compensation." Whereas the common-law rule affects only individual litigants within the judicial system, the presumption against extraterritoriality is grounded in broader and more significant concerns about international relations. *See supra*, at 13-16. Moreover, the legislative and executive branches are far better suited than the judiciary to make sensitive judgments about the United States' role in and effects on international trade. *Cf. Kiobel v. Royal Dutch Petroleum Co.*, 569 U.S. 108, 116 (2013) (foreign policy concerns in recognizing cause of action under Alien Tort Statute "'should make courts particularly wary of impinging on the discretion of the Legislative and Executive Branches in managing foreign affairs'") (quoting *Sosa v. Alvarez-Machain*, 542 U.S. 692, 727 (2004)).

Nor is Petitioner's rule supported by precedent. Petitioner and *amicus* Power Integrations, Inc. rely on *Goulds' Manufacturing Co. v. Cowing*, 105 U.S.

253 (1881), but (as Respondent explains, Br. 40-41) the issue of extraterritorial damages was not presented or decided there: The oil pumps at issue were manufactured in the United States, *see* 105 U.S. at 256, and the parties stipulated to the number of sales on which profits were awardable (Resp. Br. 40). The issue before the Court was *apportionment—i.e.*, the *extent* of the infringer's profits that were recoverable by the plaintiff under the then-effective version of the Patent Act.[8] The Court thus *assumed* that profits were available on all of the stipulated sales. It did *not* consider or decide whether the sales and associated profits were legally sited in in Canada. And, therefore, the Court cannot have considered or decided whether profits that accrue in Canada would be outside the reach of U.S. patent law. *Goulds* thus simply does not bear on the issue here.

The rule in *Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641 (1915), likewise does not support reversal (*contra* Pet'r Br. 42-43; Power Integrations Br. 14-15). In fact, the Court held in that case that, because "no part of [the complained-of] transaction[s] occur[ed] within the United States, ... as to them there could be no recovery of either profits or damages." 235 U.S. at 650. The plaintiffs there cited *Goulds* as standing for the erroneous contrary proposition, but the Court summarily rejected the argument by pointing out that in *Goulds* "the defendant made the infringing articles in the United States." *Id.* Petitioner and Power In-

---

[8] Power Integrations mischaracterizes *Goulds* in asserting (Br. 13) that the case concerned a claim for *the plaintiff's* lost profits.

tegrations contend that *Dowagiac* implied that goods *made* domestically and *sold* abroad can support infringement recovery, but the Court's summary distinction of *Goulds*—a case that *did not consider* the extraterritorial-damages issue—cannot have established the sweeping rule that Petitioner and Power Integrations would now have this Court announce.

Finally, Petitioner (*e.g.*, Br. 20-21, 47) and the Government (*e.g.*, Br. 21-22) are in any event wrong to worry that application of the presumption would leave patent holders without adequate compensation. For one thing, the rights conferred by a patent extend only within the United States, 35 U.S.C. 154(a)(1), and "the infringement" for which Section 284 provides compensation can likewise only occur domestically, 35 U.S.C. 271. A territorial limit on damages does not result in undercompensation, but instead provides a remedy that is calibrated to the limited geographic scope of the rights conferred by a U.S. patent. In contrast, as shown below, a rule under which patent damages are unbounded by the Nation's borders would provide substantial *overcompensation* relative to the value of an invention patented in the United States. Moreover, there is a ready solution available to a patent-holder who views Section 284 as providing insufficient compensation by precluding recovery of foreign damages: "its remedy today lies in obtaining and enforcing foreign patents." *Microsoft*, 550 U.S. at 456. Under that approach, each nation remains sovereign over the extent of patent protection available within its borders. Unless and until Congress expressly upsets this traditional arrangement (which it has not yet done), the presumption against extraterritorial ap-

plication of U.S. law precludes any damages award to compensate for a foreign injury.

II. A CONTRARY HOLDING WOULD HAVE NEGATIVE POLICY CONSEQUENCES BOTH FOR THE PATENT SYSTEM AND U.S. BUSINESSES

Affirmance of the Federal Circuit's rule against extraterritorial patent damages is particularly important because a contrary rule would have negative fallout for economic policy, U.S. commerce, and foreign relations—areas that are properly left to Congress and the Executive.

A. *First*, a rule allowing extraterritorial patent damages would create new and unnecessary conflicts with foreign law. As the Government "accurately conveyed" in *Microsoft*, "'[f]oreign conduct is [generally] the domain of foreign law,' and in the [patent context], in particular, foreign law 'may embody different policy judgments about the relative rights of inventors, competitors, and the public in patented inventions.'" 550 U.S. at 455 (quoting Br. for United States as *Amicus Curiae* at 28). Indeed, the World Trade Organization's Agreement on Trade-Related Aspects of Intellectual Property Rights, to which the United States has been a party for more than two decades, recognizes in its preamble that there are substantial "differences in national legal systems," creating a corresponding imperative for "effective and appropriate means for the enforcement of trade-related intellectual property rights" that take those differences into account. Agreement on Trade-Related Aspects of Intellectual Property Rights, *adopted*, 1869 U.N.T.S. 299 (Dec. 8, 1994).

A rule allowing extraterritorial damages in U.S. patent disputes would violate that imperative and sow conflict by allowing litigants to evade foreign patent regimes whose rules are more restrictive than ours. An inventor who never obtained a foreign patent, or whose rights in another country have expired, could nonetheless sue in the United States to recover damages for conduct occurring abroad. Similarly, another country's patent examiner may issue a patent with a narrower scope than that issued in the United States; a rule permitting extraterritorial damages would allow recovery based on claims that the foreign country disallowed. Even where a U.S. patent-holder also holds equivalent foreign patents, the damages available for infringement abroad are frequently far less generous than those available in the United States—differing by an order of magnitude or more.[9] A worldwide-damages regime would thus give patent holders powerful incentive to find ways to leverage U.S. patent rights in U.S. courts, even when relief might be available directly in other countries. *See* Bernard Chao, *Patent Imperialism*, 109 Nw. U. L. Rev. 77, 86-87 (2014).

---

[9] Between 2012 and 2016, the median award of patent-infringement damages in the United States was $5.8 million; in cases that proceeded past summary judgment, the figure was $8.9 million. PriceWaterhouseCoopers, 2017 Patent Litigation Study: Change on the horizon?, at 9 (May 2017), *available at* https://pwc.to/2HZ2Orr. As one point of comparison, the average recovery in French patent cases in 2015 appears to have been "well under €100,000." Thomas F. Cotter, *Patent Damages in France*, Comparative Patent Remedies (Oct. 5, 2016), https://bit.ly/2pDTp0X.

The upshot would undermine other nations' patent regimes, interfering with their ability to decide what products may be made and sold, and on what terms. This would be particularly problematic where a U.S. patent holder has no rights in another country—the U.S. courts in that circumstance would reach into another country's public domain. Companies would find themselves obligated to alter their behavior in foreign markets in order to avoid crushing liability in the United States. And if the U.S. were to adopt such a worldwide-damages regime—particularly if done via judicial fiat, without robust public debate—other nations would naturally deem it necessary to adopt reciprocal or even retaliatory measures. This is precisely the sort of conflict that the presumption against extraterritoriality is meant to avoid.

B. Permitting damages awards based on conduct occurring abroad also breeds a serious danger of duplicative recoveries and overcompensation—even apart from the risk of overcompensation created by allowing an inventor to elect U.S. law and U.S. courts to seek damages for overseas conduct. A patent-holder with both a U.S. patent and a foreign one may sue twice seeking damages for the same foreign conduct; the foreign court may permit a second recovery even if the U.S. court would not.

A similar problem would arise if U.S. and foreign rights in the same invention are held by different entities. Both might sue for damages based on the same foreign conduct, in which case the infringer could be forced to pay twice. The alternative would be yet another form of international discord: If foreign law protected the infringer from a second suit,

an overreach of U.S. patent law could leave the holder of the foreign patent without recovery for infringement in its own country.

C. A rule allowing worldwide damages would also create a grave risk of overcompensation, even apart from the double-recovery problem, because it would massively increase the scale of available damages. The foreign lost profits in this case ($93.4 million) were more than four times the amount of the domestic reasonable royalties ($22 million). Pet. App. 139a, 168a, 170a-175a. Similarly in *Power Integrations*, more than 80% of the damages award derived from foreign sales. *See* 711 F.3d at 1370. Rather than truly encouraging innovation, such gargantuan recoveries would create new incentives to monetize patent rights through aggressive enforcement—particularly for patent trolls. One side effect would be a further expansion of the federal courts' already-crowded patent docket. Conversely, accused infringers would face enormous pressure to settle patent suits, even where the patent is of poor quality or the infringement claim is not strong.

The threat of multinational patent damages in a single lawsuit before a U.S. jury will also discourage potential inventors and innovators from undertaking any activity in the United States that could arguably create exposure to such liability. Some inventors will simply choose not to take the risk. Others will take their business elsewhere—a risk that is particularly acute in cutting-edge fields. *Carnegie Mellon* provides an example: The defendant developed a microchip that was found to infringe the plaintiff university's patented error-detection method. *See* 807 F.3d at 1291. Had the defendant known that

this U.S.-based research-and-development activity might later give rise to damages for *every one* of the more than *2.3 billion* chips it would go on to sell around the world, and that a friendly jury could thus award a Section 284 "reasonable royalty" of *$1.17 billion*, *see id.* at 1291-92, 1305-06, it surely would have thought twice about locating its research facility in the United States. While the Federal Circuit vacated the award to the extent it rested on chips that never entered the United States, *id.* at 1305-07, reversal in this case would reinstate the threat of such lawsuits.

That threat would encourage important industries to relocate abroad, even if only to avoid the threat of multinational patent damages. Computer chip and other hardware manufacturers commonly engage in research, development, and testing activities that are broadly similar to the *Carnegie Mellon* defendant's. So do software companies, and pharmaceutical companies, and medical-device manufacturers, and on and on. Under Petitioner's and the Government's theory, any company that designs new products in the United States before selling them abroad would find itself at risk of catastrophic damages awards. Such companies would thus face a powerful incentive to move their facilities abroad, taking jobs and revenues with them. Affirming the judgment, and the rule against extraterritorial application of the Patent Act, would avoid these dire consequences.

CONCLUSION

The judgment should be affirmed.

Respectfully submitted,

Derek L. Shaffer
QUINN EMANUEL URQUHART & SULLIVAN, LLP
1300 I Street NW, Suite 900
Washington, D.C. 20005
(202) 538-8000

Kathleen M. Sullivan
Counsel of Record
Cleland B. Welton II
QUINN EMANUEL URQUHART & SULLIVAN, LLP
51 Madison Ave., 22nd Floor
New York, NY 10010
(212) 849-7000
kathleensullivan@quinnemanuel.com

Attorneys for Amici Curiae

April 2, 2018

No. 16-1011

In the
Supreme Court of the United States

WESTERNGECO LLC,
Petitioner,

v.

ION GEOPHYSICAL CORPORATION,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE* HOUSTON INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF NEITHER PARTY

SAPNA KUMAR
Associate Professor of Law
University of Houston Law Center
4604 Calhoun Rd.
Houston, TX 77204
Additional Counsel for Amicus Curiae

IFTIKHAR AHMED
Counsel of Record
Ahmad, Zavitsanos, Anaipakos, Alavi & Mensing P.C.
1221 McKinney St.
Suite 2500
Houston, Texas 77010
(713) 655-1101
Iftiahmed@azalaw.com

March 2, 2018

TABLE OF CONTENTS

INTEREST OF *AMICUS CURIAE* 1

SUMMARY OF THE ARGUMENT 3

ARGUMENT 5

I. Under the Supreme Court's Two-Step Test in *RJR Nabisco, Inc. v. European Community*, 35 U.S.C. § 271(f) Applies Extraterritorially. 5

II. The Federal Circuit's Bright-Line Rule Restricts Patent Owners from Recovering Damages When There is No Other Law to Apply. 11

III. The Federal Circuit's Total Prohibition against Recovering Foreign Damages is in Tension with Other Intellectual Property Statutes. 13

IV. The Federal Circuit's Decision is Contrary to an Application of Damages under a Proximate Cause Analysis in Tort Law. 16

CONCLUSION 19

TABLE OF AUTHORITIES

Cases

Bank of Am. Corp. v. City of Miami, Fla.,
137 S. Ct. 1296 (2017) 16

Deepsouth Packing Co. v. Laitram Corp.,
406 U.S. 518 (1972) 6, 7, 8

General Motors Corp. v. Devex Corp.,
461 U.S. 648 (1983) 8, 19

Halo Electronics, Inc. v. Pulse Electronics, Inc.,
136 S. Ct. 1923 (2016) 8

Impression Prods. v. Lexmark Int'l Inc.,
137 S. Ct. 1523 (2017) 9

Lexmark Int'l, Inc.
v. Static Control Components, Inc.,
134 S. Ct. 1377 (2014) 16, 18

Life Techs. Corp. v. Promega Corp.,
137 S. Ct. 734 (2017) 7

McCulloch
v. Sociedad Nacional De Marineros De Hond.,
372 U.S. 10 (1963) 12

Microsoft Corp. v. AT&T Corp.,
550 U.S. 437 (2007) 5, 6, 7

Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.,
575 F.2d 1152 (6th Cir. 1978) 17, 18

Power Integrations, Inc.
v. Fairchild Semiconductor Int'l Inc.,
711 F.3d 1348 (Fed. Cir. 2013) 7

Rite-Hite Corp. v. Kelley Co., Inc.,
56 F.3d 1538 (Fed. Cir. 1995) 17

RJR Nabisco, Inc. v. European Community,
136 S. Ct. 2090 (2016) 3, 5, 10

Skiriotes v. State of Florida,
313 U.S. 69 (1941) 14

Steele v. Bulova Watch Co.,
344 U.S. 280 (1952) 13, 14, 15, 16

Tire Eng'g and Distrib., LLC
v. Shandong Linglong Rubber Co., Ltd.,
682 F.3d 292 (4th Cir. 2012) 15

WesternGeco L.L.C. v. ION Geophysical Corp.,
791 F.3d 1340 (Fed. Cir. 2015) ..... passim

WesternGeco L.L.C. v. ION Geophysical Corp.,
136 S. Ct. 2486 (2016) 3, 6

WesternGeco L.L.C. v. ION Geophysical Corp.,
837 F.3d 1358 (Fed. Cir. 2016) 3, 6, 17

Statutes

15 U.S.C. § 1125(1) 14

15 U.S.C. § 1127 14

18 U.S.C. § 1964(c) 10, 11

35 U.S.C. § 102(a) 9

35 U.S.C. § 271(a) 7

35 U.S.C. § 271(f) ..... passim

35 U.S.C. § 284 ..... passim

Other Authorities

Daniel Gervais & Dashiell Renaud, *The Future of United States Copyright Formalities: Why We Should Prioritize Recordation, and How to do That*, 28 Berkeley Tech. L. J. 1459 (2013) 15

Elizabeth I. Winston, *Patent Boundaries*, 87 Temp. L. Rev. 501 (2015) 12

H.R. REP. NO. 1587 11

Mark A. Lemley, *Distinguishing Lost Profits from Reasonable Royalties*, 51 Wm. & Mary L. Rev. 655 (2009) 19

S. REP. 79-103 (1946) 11

S. REP. NO. 98-663 (1984) 6, 8

Sapna Kumar, *Patent Damages Without Borders*, 25 Tex. Intell. Prop. L. J. 73 (2017). passim

Timothy Holbrook, *Boundaries, Extraterritoriality, and Patent Infringement Damages*, 92 Notre Dame L. Rev. 1745 (2017) 16, 18

INTEREST OF *AMICUS CURIAE*

The Houston Intellectual Property Law Association ("HIPLA") is an association of hundreds of lawyers and other professionals who predominately work in the Houston, Texas, area (*see generally* www.hipla.org).[1] The practice of most of the HIPLA membership relates in substantial part to the field of intellectual property law. Founded in 1961, HIPLA is one of the largest associations of intellectual property practitioners in the United States. HIPLA represents the interests of its members and has filed *amicus curiae* briefs in this Court and other courts on significant issues of intellectual property law. HIPLA has no stake in any of the parties to this litigation or in the outcome of this litigation.

HIPLA believes this amicus brief will assist the Court in deciding this important case involving U.S. patent law. HIPLA takes no position as to the

---

[1] No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amicus curiae* or its counsel made a monetary contribution to its preparation or submission. The parties have consented to the filing of this brief in both Petitioner and Respondent providing consents to the filing of *amicus curiae* briefs in support of either party or neither party in docket entries dated Feb. 2, 2018 and Feb. 1, 2018, respectively.

merits of the case before the Court. HIPLA respectfully wishes to draw the Court's attention to some of the Court's applicable precedent, underlying policy issues, and the potential impact of its decision.

SUMMARY OF THE ARGUMENT

In *WesternGeco L.L.C. v. ION Geophysical Corp.*, the Federal Circuit held that, notwithstanding the fact that § 271(f) of the Patent Act has extraterritorial effect, lost profit damages for patent infringement cannot be based on extraterritorial conduct. 791 F.3d 1340, 1351 (Fed. Cir. 2015); *vacated*, 136 S. Ct. 2486 (2016); *reinstated in relevant part*, 837 F.3d 1358 (Fed. Cir. 2016). The conduct giving rise to the damages at issue occurred on the high seas, where no other country's law directly applies. *Id.* at 1349.

The Federal Circuit failed to properly apply the Supreme Court's two-step test under *RJR Nabisco, Inc. v. European Community*, 136 S. Ct. 2090, 2101 (2016). Under that test, § 271(f) clearly reaches the extraterritorial conduct at issue in this case. Section 284 of the Patent Act is coextensive with the statute's substantive provisions, providing damages whenever a patent has been infringed. *See* 35 U.S.C. § 284. Consequently, to the extent that the test must be applied separately to damages provisions, § 284 also meets the test.

The Federal Circuit's *WesternGeco* rule creates a gap in patent protection. No country's patent law directly applies on the high seas, and it is unclear whether the law of the flag would allow another

country's law to reach the conduct at issue in this case. As a result, if an infringer exclusively supplies components from the United States that are only used on the high seas, it is possible that no country's patent law would reach the conduct. *See WesternGeco*, 791 F.3d at 1360–61 (Wallach dissent-in-part).

The Federal Circuit's approach to extraterritoriality is also in tension with trademark and copyright law. Admittedly, patent law is far more territorial than other areas of intellectual property. Nevertheless, cases that involve conduct on the high seas do not appear to raise prescriptive comity concerns, making an absolute prohibition against foreign damages inappropriate. *See* Sapna Kumar, *Patent Damages Without Borders*, 25 Tex. Intell. Prop. L. J. 73, 112 (2017).

The Federal Circuit's rule is additionally contrary to traditional common-law principles of compensatory damages in tort law. An award of lost profits damages for extraterritorial conduct arising from infringement under § 271(f) should be limited by principles of proximate causation, not by the foreign nature of the losses. District courts should be allowed discretion in deciding availability of extraterritorial damages based on proximate cause principles such as the foreseeability of those losses

resulting from domestic acts of infringement. By cabining the district court's discretion, the Federal Circuit's bright-line rule denies a prevailing patentee "damages adequate to compensate for the infringement" under 35 U.S.C. § 284, weakens patent rights, and negatively impacts innovation.

ARGUMENT

I. Under the Supreme Court's Two-Step Test in *RJR Nabisco, Inc. v. European Community*, 35 U.S.C. § 271(f) Applies Extraterritorially

In *RJR Nabisco, Inc. v. European Community*, 136 S. Ct. 2090, 2101 (2016), this Court provided a two-step framework for analyzing extraterritoriality issues for federal statutes. Under step one, a court asks "whether the presumption against extraterritoriality has been rebutted—that is, whether the statute gives a clear, affirmative indication that it applies extraterritorially." *Id.* If the statute is not extraterritorial under the first step, the court moves to step two and asks "whether the case involves a domestic application of the statute," and looks to the statute's focus. *Id.* In analyzing extraterritoriality, the court must also consider "the *extent* of the statutory exception." *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 455–56 (2007) (emphasis in original).

In this section, HIPLA discusses why §§ 271(f) and 284 of the Patent Act each pass both steps and apply to extraterritorial conduct.

A. Step One is Met for § 271(f)

Section 271(f) provides clear indication that Congress intended for the provision to apply extraterritorially. Congress added § 271(f) to the Patent Act in response to *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), in which the Supreme Court held that § 271(a) was not infringed by extraterritorial activity. *See* S. REP. NO. 98-663, at 2–3 (1984) (extending the Patent Act "so that when components are supplied for assembly abroad to circumvent a patent, the situation will be treated the same as when the invention is 'made' or 'sold' in the United States").

The Federal Circuit erroneously maintained that § 271(f) was a "limited exception," observing that in *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007), this Court interpreted § 271(f) narrowly. *WesternGeco L.L.C. v. ION Geophysical Corp.*, 791 F.3d 1340, 1351 (Fed. Cir. 2015); *vacated*, 136 S. Ct. 2486 (2016); *reinstated in relevant part*, 837 F.3d 1358 (Fed. Cir. 2016). This case, however, can be distinguished from *Microsoft*. In *Microsoft*, when the Court was faced with a choice of a broad interpretation of "component" that extended the

extraterritorial reach of § 271(f) versus a narrow one that did not, it chose the narrow reading. *Microsoft Corp.*, 550 U.S. at 454–55. In *WesternGeco*, by contrast, there was no ambiguous statutory language and the Federal Circuit affirmed that § 271(f) had been violated. *WesternGeco L.L.C.*, 791 F.3d at 1348–49. Consequently, the "limited exception" concerns expressed in *Microsoft* for § 271(f) are not applicable to this case.

The Federal Circuit's reliance on § 271(a) is also misplaced. It held that under *Power Integrations, Inc. v. Fairchild Semiconductor Int'l Inc.*, 711 F.3d 1348 (Fed. Cir. 2013), extraterritorial damages are prohibited. *WesternGeco L.L.C.*, 791 F.3d at 1351. It further maintained that because liability attaches in the United States under § 271(f), damages should be treated the same as under § 271(a). *Id.*

However, the Federal Circuit's reasoning contravenes the clear intent of Congress. As this Court noted in *Deepsouth Packing*, § 271(a) has strict territorial limits, and Congress did not intend for it to "operate beyond the limits of the United States." *Deepsouth Packing*, 406 U.S. at 532. By contrast, Congress created § 271(f) to "fill a gap in the enforceability of patent rights." *Life Techs. Corp. v. Promega Corp.*, 137 S. Ct. 734, 743 (2017). In the Report from the Committee on the Judiciary

regarding the Patent Law Amendments of 1984, Congress stressed that "[p]ermitting the subterfuge" under *Deepsouth* "weakens confidence in patents among businesses and investors" and saw that amendments were needed "to help maintain a climate in the United States conductive to invention, innovation, and investment." S. REP. NO. 98-663, at 3. Given the breadth of this language supporting § 271(f), it is hard to imagine that Congress intended to leave a damages gap.

Courts should not artificially restrict damages under the Patent Act. In *General Motors Corp. v. Devex Corp.*, this Court observed that "[w]hen Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly." 461 U.S. 648, 653 (1983). The Court also recently emphasized in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, in the context of enhanced damages, that the Federal Circuit should not "unduly confine[] the ability of district courts to exercise the discretion conferred on them." 136 S. Ct. 1923, 1935 (2016). In passing § 284, "Congress sought to ensure that the patent owner would in fact receive full compensation for 'any damages' he suffered as a result of the infringement." *General Motors Corp.*, 461 U.S. at 654–55. Accordingly, the Patent Act should be interpreted to favor fully

compensating patent holders once infringement has been proven under § 271.

B. Step Two is Met for § 271(f)

Step two is also clearly met. Section 271(f) involves a multiterritorial, not extraterritorial, application of U.S. law. *See* Sapna Kumar, *Patent Damages Without Borders*, 25 Tex. Intell. Prop. L. J. 73, 102–103 (2017). Section 271(f)'s focus is on components exported from the United States with the intention that they be assembled into U.S.-patented devices. As the *WesternGeco* court observed, liability under § 271(f) "attaches in the United States." *WesternGeco*, 791 F.3d at 1351. Consequently, in cases like *WesternGeco*, there is a permissible domestic application—preventing the export of components from the United States—notwithstanding the fact that other conduct occurred abroad.

The presumption against extraterritoriality does not prohibit courts from looking to foreign activities in other areas of U.S. patent law. For example, under 35 U.S.C. § 102(a), foreign publications can serve as invalidating prior art. *See* 35 U.S.C. § 102(a) (2012). Likewise, this Court has held that the sale of patented goods exhausts a patentee's domestic patent rights. *See Impression Prods. v. Lexmark Int'l Inc.*, 137 S. Ct. 1523 (2017).

C. The Two-Step Test for § 284

In *RJR Nabisco*, the unanimous Court noted that the two-step test applies "regardless of whether the statute in question regulates conduct, affords relief, or merely confers jurisdiction." *RJR Nabisco*, 136 S. Ct. at 2101. A four-Justice majority held that the presumption against extraterritoriality can apply more than once to the same statute. *Id.* at 2106. However, the Court did not speak to whether the test applies again to a damages provision once liability has been established.

In *RJR Nabisco*, this Court observed that the private right of action under § 1964(c) of the Racketeer Influenced and Corrupt Organizations Act (RICO) lacks any explicit extraterritorial reach, and that § 1964(c) is not coextensive with RICO's substantive provisions. *Id.* at 2108. It maintained that "by cabining RICO's private cause of action to particular kinds of injury," that "Congress signaled that the civil remedy is not coextensive with § 1962's substantive prohibitions." *Id.*

Damages under § 284, by contrast, are available for any kind of patent infringement. *See* 35 U.S.C. § 284. During the passage of the 1952 Patent Act, the House Committee on Patents noted that the Patent Act's purpose was "to make the basis of recovery in patent-infringement suits general

damages, that is, any damages the complainant can prove. . ." H.R. REP. NO. 1587, at 1 (1946); *see also,* S. REP. 79-103 (1946), at 2 (adopting the same language).

The argument for restricting § 1964(c)'s reach does not apply to § 284. It would be absurd for courts to require Congress to revise a coextensive damages provision every time Congress explicitly expands substantive law extraterritorially. Moreover, in the case of § 284, Congress would have had no reason to do this, given that at the time of passage for §§ 284 and 271(f), there was no indication that the presumption against extraterritoriality might apply to a damages provision. *See* Kumar, 25 Tex. Intell. Prop. L. J. at 79–81 (discussing the presumption against extraterritoriality's revival and expansion beginning in the 1990s).

II. The Federal Circuit's Bright-Line Rule Restricts Patent Owners from Recovering Damages When There is No Other Law to Apply

The Federal Circuit's decision leaves a gap in patent protection when infringement occurs on the high seas. Under the United Nations Convention on the Law of Seas (UNCLOS), a vessel flying under a state's flag is subject to that state's exclusive jurisdiction on the high seas. However, UNCLOS is

merely advisory in the United States because Congress never ratified it. *See* Elizabeth I. Winston, *Patent Boundaries*, 87 Temp. L. Rev. 501, 505 (2015). Under federal common law, the law of the flag only "governs the internal affairs of a ship." *McCulloch v. Sociedad Nacional De Marineros De Hond.*, 372 U.S. 10, 21 (1963).

It is uncertain whether the law of the flag would be applicable in cases like *WesternGeco*. The doctrine generally applies to conduct occurring on a vessel, not damages resulting from conduct in the United States, and no case appears to apply it to damages. Moreover, it is wholly unclear whether other countries would apply their respective patent laws to cases involving infringement on vessels flying their flags.

Consequently, as Judge Wallach observed in *WesternGeco*, if an infringer exclusively supplies components from one country that are only used on the high seas, "it may be that no country's patent laws reach the conduct occurring in international waters absent a provision such as § 271(f)." *WesternGeco*, 791 F.3d at 1360–61 (Wallach dissent-in-part). There is no patent office on the high seas. If territorial laws cannot reach high seas infringement, then a gap exists in the global patent system.

In this regard, the Federal Circuit's holding allows mischief through the structuring of multiterritorial transactions. Potential infringers could seek to insulate themselves from infringement liability by structuring market transactions to include foreign activities. The bulk of the damages would then be beyond the reach of U.S. courts.

III. The Federal Circuit's Total Prohibition against Recovering Foreign Damages is in Tension with Other Intellectual Property Statutes

The Federal Circuit's complete prohibition on extraterritorial damages under § 271(f) is also in tension with the Lanham Act and Copyright Act. In this section, HIPLA discusses the extraterritorial application of these statutes and suggests that the Court permit damages from high seas activity.

In *Steele v. Bulova Watch Co.*, this Court considered whether a U.S. citizen petitioner's sales of counterfeit watches in Mexico were actionable under the Lanham Act. 344 U.S. 280 (1952). The Court maintained that "the United States is not debarred by any rule of international law from governing the conduct of [its] own citizens upon the high seas or even in foreign countries when the rights of other nations or their nationals are not infringed." *Id.* at 285.

The Court's decision, however, hinges on the fact that the Lanham Act is grounded in Congress's Commerce Clause powers. Section 1125 of the Lanham Act [False designations of origin, false descriptions, and dilution forbidden] prohibits "uses in commerce" of words, terms, or the like that can cause confusion, and under § 1127 [Construction and definitions; intent of chapter], "commerce" refers to "all commerce which may lawfully be regulated by Congress." 15 U.S.C. §§ 1125(1), 1127 (2012) Because Congress can lawfully regulate conduct of its own citizens outside the United States, the Court's broad extraterritorial application of the Lanham Act has statutory support. *See Steele*, 344 U.S. at 285–86 (observing that international law does not bar the United States "'from governing the conduct of its own citizens upon the high seas or even in foreign countries when the rights of other nations or their nationals are not infringed'" (quoting *Skiriotes v. State of Florida*, 313 U.S. 69 (1941)).

The Copyright Act contains no express extraterritorial language. Nevertheless, three courts of appeal have adopted the predicate act doctrine, in which an act of U.S. infringement that permits further infringement abroad can give rise to a claim for damages flowing from the foreign conduct. *See Tire Eng'g and Distrib., LLC v. Shandong Linglong Rubber Co., Ltd.*, 682 F.3d 292, 306 (4th Cir. 2012)

(per curium); *Los Angeles News Serv. v. Reuters Int'l, Ltd*, 149 F.3d 987, 992 (9th Cir. 1998); *Update Art, Inc. v. Modiin Publ'g, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988).

The Court, however, should not apply the predicate act doctrine to patent law. Copyright law among nations is fairly uniform under the Berne Convention. *See* Daniel Gervais & Dashiell Renaud, *The Future of United States Copyright Formalities: Why We Should Prioritize Recordation, and How to do That*, 28 Berkeley Tech. L. J. 1459, 1471–74 (2013). By contrast, patent law is the most territorial of all intellectual property rights, making prescriptive comity concerns stronger compared to copyright law. *See* Kumar, 108 Tex. Intell. Prop. L. J. at 110. In the context of trademark law, this Court was mindful of the potential for comity concerns. In *Steele*, the Court emphasized the fact that Mexico had nullified the petitioner's Mexican registration of "Bulova," and that consequently, there was "no conflict which might afford petitioner a pretext that such relief would impugn foreign law." *Steele*, 344 U.S. at 289. *See also,* Timothy Holbrook, *Boundaries, Extraterritoriality, and Patent Infringement Damages*, 92 Notre Dame L. Rev. 1745, 1787 (2017). Accordingly, in view of comity concerns, the Court should resist adopting a blanket approach for §§ 271(f) and 284.

However, the Court need not adopt the predicate act doctrine to allow for the recovery of high seas damages. As discussed in section II, no country's law directly applies for patent-related disputes on the high seas. Consequently, the Court can follow the reasoning of *Steele* and permit damages in cases like this one in which foreign law will not be impugned.

IV. The Federal Circuit's Decision is Contrary to an Application of Damages under a Proximate Cause Analysis in Tort Law

A claim for damages in a tort action is subject to the common-law requirement that loss be attributable to the proximate cause. *Bank of Am. Corp. v. City of Miami*, Fla., 137 S. Ct. 1296, 1299 (2017) (citing *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1390 (2014)). The proximate-cause analysis asks "whether the harm alleged has a sufficiently close connection to the conduct the statute prohibits." *Id.* The proper inquiry for a recovery of extraterritorial lost profits damages is whether the patentee's economic injury flows directly from the domestic infringement under § 271(f).

The Federal Circuit, for example, has limited damage awards in patent cases based on the principles of foreseeability. *See Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1546 (Fed. Cir. 1995)

(en banc) ("If a particular injury was or should have been reasonably foreseeable by an infringing competitor in the relevant market, broadly defined, that injury is generally compensable absent a persuasive reason to the contrary."). To recover lost profits damages, the patentee must prove with reasonable certainty that the infringement did in fact proximately cause the amount of lost profits sought. *Id.* at 1545; *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978).

The availability of extraterritorial damages for infringement under § 271(f) should likewise be governed by a similar foreseeability requirement. A patentee should not be entitled to foreign lost profits unless those damages are proximately caused by domestic acts resulting in infringement. *See WesternGeco*, 837 F.3d at 1368 (Wallach dissent-in-part) ("the appropriate measure of damages must bear some relation to the extent of the infringement in the United States"); *see also* Holbrook, 92 Notre Dame L. Rev., at 1792 (The foreseeability analysis should be the lever used to police an overreaching claim for lost profits damages). In cases where the relationship between domestic infringement and foreign lost profits is undercut by intervening causes, a patentee's right to recover such damages should be limited accordingly. Considerations

similar to those of the *Panduit* test, such as the infringer's capabilities abroad as well as the availability of alternatives to avoid infringement, could factor into the foreseeability of the lost profits damages. Undoubtedly, the proximate-cause inquiry is not easy to define and generally involves complex factual issues, but district courts have a great deal of experience applying it, and there is a wealth of precedent for them to draw upon in doing so. *Lexmark*, 134 S. Ct. at 1390. District courts must be afforded ample discretion in resolving causation issues and determining an adequate measure of the patentee's lost profit damages.

The Federal Circuit's bright-line rule, in contrast, avoids the proximate-cause inquiry and deprives district courts of the discretion necessary to award a prevailing patentee "damages adequate to compensate for the infringement." 35 U.S.C. § 284. The argument that reasonable royalty damages adequately compensate the patentee for losses from the foreign uses of its patented invention, *WesternGeco L.L.C.*, 791 F.3d at 1351, ignores the reality that a patentee can generally recover more if it is able to establish lost profits, *see* Kumar, 25 Tex. Intell. Prop. L. J. at 90–91; Mark A. Lemley, *Distinguishing Lost Profits from Reasonable Royalties*, 51 Wm. & Mary L. Rev. 655, 661 (2009)

(observing that "patent damages tend to be greater in lost profits cases than in reasonable royalty cases"). Limiting recovery to a reasonable royalty deprives the patentee of "full compensation for 'any damages' he suffered as a result of the infringement." *See General Motors Corp.*, 461 U.S. at 654–55. The Federal Circuit's prohibition on lost profits damages therefore risks devaluing United States patents and having the unintended consequence of impeding innovation.

CONCLUSION

HIPLA respectfully asks this Court to rule that that lost profits arising from prohibited combinations occurring outside of the United States are not categorically unavailable in cases where patent infringement is proven under 35 U.S.C. § 271(f).

Respectfully submitted,

SAPNA KUMAR
Associate Professor
University of Houston
Law Center
4604 Calhoun Rd.
Houston, TX 77204
Additional Counsel
for Amicus Curiae

March 2, 2018

IFTIKHAR AHMED
Counsel of Record
Ahmad, Zavitsanos,
Anaipakos, Alavi &
Mensing P.C.
1221 McKinney St.
Suite 2500
Houston, Texas 77010
(713) 655-1101
Iftiahmed@azalaw.com

No. 16-1011

In the Supreme Court of the United States

WESTERNGECO LLC,
Petitioner,

v.

ION GEOPHYSICAL CORPORATION
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF AMICUS CURIAE THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO IN SUPPORT OF PETITIONER

PAUL R. KITCH
President
THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO
P.O. BOX 472
CHICAGO, IL 60690

DAVID L. APPLEGATE
WILLIAMS MONTGOMERY & JOHN
233 SOUTH WACKER DR.
6100 WILLIS TOWER
CHICAGO, IL 60606
(312) 443-3200

DONALD W. RUPERT
Counsel of record
MARSHALL, GERSTEIN & BORUN LLP
233 SOUTH WACKER DR.
6300 WILLIS TOWER
CHICAGO, IL 60606
(312) 474-6300
drupert@marshallip.com

JOHN LINZER
QUARLES & BRADY LLP
300 N. LASALLE STREET
SUITE 4000
CHICAGO, IL 60654
(312) 715-5000

March 2, 2018

QUESTION PRESENTED

Whether the court of appeals erred in holding that lost profits arising from prohibited combinations occurring outside of the United States are categorically unavailable in cases where patent infringement is proven under 35 U.S.C § 271(f).

TABLE OF CONTENTS

Page(s)

I. INTEREST OF AMICUS CURIAE 1

II. SUMMARY OF ARGUMENT 2

III. ARGUMENT 4

A. Background Decisions 4

B. Congress Explicitly Made Extraterritorial Activities Part of Several of the Patent Statues 6

C. Because Infringement Occurred in the United States, Section 271(f) Does Not Prohibit the Court from Considering Foreign Activities in Measuring Appropriate Damages 8

D. The Federal Circuit's Refusal to Permit Lost Profits for Section 271(f) Liability Will Have a Significant Adverse Impact on U.S. Businesses 17

IV. CONCLUSION 19

TABLE OF AUTHORITIES

Page(s)

Cases

Aro Mfg. Co. v. Convertible Top Replacement Co.,
377 U.S. 476 (1964) 13

Deepsouth Packing Co. v. Laitram Corp.,
406 U.S. 518 (1972) 14, 15

eBay Inc. v. MercExchange LLC,
547 U.S. 388 (2006) 15, 16

General Motors Corp. v. Devex Corp.,
461 U.S. 648 (1983) 11, 12

Goulds' Mfg. Co. v. Cowing,
105 U.S. 253 (1881) 12

Halo Electronics v. Pulse Electronics,
136 S. Ct. 579 (2016) 5

King Instruments Corp. v. Perego,
65 F.3d 941 (Fed. Cir. 1995) 11

Livesay Window Co. v. Livesay Indus., Inc.,
251 F.2d 469 (5th Cir. 1958) 13

Mentor Graphics Corp. v. Eve-USA, Inc.,
851 F.3d 1275 (Fed. Cir. 2017) 13, 14

Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.,
575 F.2d 1152 (6th Cir. 1978) 13, 14

TABLE OF AUTHORITIES (*continued*)

Page(s)

R.R. Dynamics, Inc. v. A. Stucki Co.,
727 F.2d 1506 (Fed. Cir. 1984) 12

Schillinger v. United States,
155 U.S. 163 (1894) 12

State Industries, Inc. v. Mor-Flow Industries, Inc.,
883 F.2d 1573 (Fed. Cir. 1989) 14

WesternGeco L.L.C. v. ION Geophysical Corp.,
953 F.Supp.2d 731 (S.D.Tx. 2013) 13

WesternGeco LLC v. ION Geophysical Corp.,
136 S. Ct. 2486 (2016) 5

WesternGeco LLC v. ION Geophysical Corp.,
791 F.3d 1340 (Fed. Cir. 2015) 4, 9, 11, 16

WesternGeco LLC v. ION Geophysical Corp.,
837 F. 3d 1358 (Fed. Cir. 2016) 5, 16

Statutes

35 U.S.C. § 112(a) 17

35 U.S.C. § 261 12

35 U.S.C. § 271 6

35 U.S.C. § 271(a) 6, 9

TABLE OF AUTHORITIES (*continued*)

Page(s)

35 U.S.C. § 271(b) 6, 9

35 U.S.C. § 271(c) 6

35 U.S.C. § 271(d) 6

35 U.S.C. § 271(e) 6, 7

35 U.S.C. § 271(f) ..... *passim*

35 U.S.C. § 271(f)(1) 4, 8, 10

35 U.S.C. § 271(f)(2) 4, 8, 9, 10

35 U.S.C. § 271(g) 7

35 U.S.C. § 284 ..... *passim*

Other Authorities

H.R. Rep. No. 1587, 79th Cong., 2d Sess. 1-2 (1946) 11

I. INTEREST OF AMICUS CURIAE[1]

The Intellectual Property Law Association of Chicago ("IPLAC") submits this brief as amicus curiae in support of Petitioner on the question presented.[2,3] Founded in 1884, IPLAC is the country's oldest bar association devoted exclusively to intellectual property matters. Located in Chicago, a principal locus and forum for the nation's authors, artists, inventors, scholarly pursuits, arts, creativity, research and development, innovation, patenting, and patent litigation, IPLAC is a voluntary bar association of over 1,000 members with interests in the areas of patents, trademarks, copyrights, and trade secrets, and the legal issues they present. Its members include attorneys in private and corporate practices before

---

[1] Pursuant to Supreme Court Rule 37.6, no counsel for a party authored this brief in whole or in any part, no such counsel or a party made a monetary contribution intended to fund the preparation or submission of the brief, and no person other than the *amicus curiae*, its members, or its counsel, made such a monetary contribution.

[2] In addition to footnote 1, IPLAC believes that (a) no member of its Board or Amicus Committee who voted to prepare this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation in this matter, (b) no representative of any party to this litigation participated in the authorship of this brief, and (c) no one other than IPLAC, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief.

[3] In this Court, Respondent and Petitioner filed blanket consents for the filing of amicus briefs on February 1 and February 2, 2018, respectively.

federal bars throughout the United States, as well as the U.S. Patent and Trademark Office and the U.S. Copyright Office.[4] IPLAC (a not-for-profit) represents both patent holders and other innovators in roughly equal measure. In litigation, IPLAC's members are split roughly equally between plaintiffs and defendants. As part of its central objectives, IPLAC is dedicated to aiding the development of intellectual property law, especially in the federal courts. A principal aim is to aid in the development and administration of intellectual property laws and the manner in which the courts and agencies, including the United States Patent and Trademark Office, apply them. IPLAC is also dedicated to maintaining a high standard of professional ethics in the practice of law, providing a medium for the exchange of views on intellectual property law among those practicing in the field, and educating the public at large.

II. SUMMARY OF ARGUMENT

The damages section of the patent statute, 35 U.S.C. § 284, provides that "the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty . . . ." This Court has held that Section 284 is intended to place the patent owner in a position as good as he would have been if there had been no infringement. The appellate court deprived the Petitioner of its lawful remedy by incorrectly finding

---

[4] Although over 30 federal judges are honorary members of IPLAC, none of them was consulted or participated in any way regarding this brief.

that to do so would require extraterritorial application of U.S. patent law.

This case raises important issues of the application of the patent damages statute and the presumption against extraterritoriality. Here, there would be no extraterritorial application of U.S. law. Respondent is a U.S. company and its actions in the U.S. were held to infringe Petitioner's patents. No foreign entity was found to infringe the patents or required to pay damages for activities outside of the U.S.

These issues are important because of the global reach of U.S. based businesses. Patented products manufactured part by part, with the parts then sold in uncombined form to off-shore entities that assemble them, coupled with the requisite intent, is an infringement under § 271(f). The appellate court's categorical ruling precludes a patent owner from recovering its lost profits resulting from such infringement. That ruling also contravenes Section 284's mandate that a patent owner shall receive all of the damages adequate to compensate for the infringement.

IPLAC further supports the Petitioner because the Federal Circuit's failure to permit lost profits damages of the type at issue here may significantly impact U.S. patent owners and their sales and marketing activities world-wide.

III. ARGUMENT

A. Background Decisions

This case has been back and forth between this Court and the Federal Circuit, resulting in multiple decisions, dissents, and an order denying rehearing *en banc*.

1. After a jury trial, the district court entered a judgment that Respondent ION infringed claims of the asserted patents under 35 U.S.C. §§ 271(f)(1) and 271(f)(2), found no willful infringement, awarded damages of lost profits and a reasonable royalty as found by the jury. The lost profits award involved profits on activities that occurred outside the United States.

2. On July 2, 2015, in *WesternGeco LLC v. ION Geophysical Corp.*, 791 F.3d 1340 (Fed. Cir. 2015) ("*WesternGeco – I*"), the Federal Circuit affirmed the judgment of infringement and concluded that the district court committed no error in finding no willful infringement. *Id.* at 1347-49, 1353-54. The court rejected, 2-1, the award of lost profits for infringement under 35 U.S.C. § 271(f) resulting from activities outside the U.S. because such an award would require applying § 271(f) extraterritorially. *Id.* at 1351. Regarding the majority's lost profits ruling, Judge Wallach dissented, noting that the infringing acts under § 271(f) occurred in the U.S. and that an "appropriate connection" existed between that domestic infringement and the resulting lost foreign sales. *Id.* at 1360.

3. On October 30, 2015, the Federal Circuit denied WesternGeco's petition for rehearing *en banc*. Pet.App. 176a-180a. Joined by Judges Newman and Reyna, Judge Wallach dissented from denial of that petition in relation to the lost profits issue for the reasons he provided in dissent in the previous panel decision. *Id.*

4. In February 2016, WesternGeco petitioned this Court for certiorari asking, among other things, that its petition be held until the Court announced its decision in *Halo Electronics v. Pulse Electronics*, 136 S. Ct. 579 (2016), argued three days earlier. The petition requested that the Court grant certiorari, vacate, and remand ("GVR") for further consideration if *Halo* did anything other than completely affirm the Federal Circuit's *Seagate* test for willful infringement. When this Court abrogated the *Seagate* test in deciding *Halo* on June 13, 2016, the Court issued the GVR order and remanded WesternGeco's case to the Federal Circuit. 136 S. Ct. 2486 (2016).

5. After remand, on September 21, 2016, the Federal Circuit issued its second opinion *WesternGeco LLC v. ION Geophysical Corp.*, 837 F. 3d 1358 (Fed. Cir. 2016) ("*WesternGeco – II*"). In that opinion, the court vacated the district court's finding of no willful infringement and remanded that issue to the district court for consideration under the *Halo* standard. On all other issues, including the non-availability of lost profits, the court reinstated its earlier opinion. *Id.* Regarding the majority's refusal to award lost profits, Judge Wallach again dissented. *Id.* at 1365-69.

B. Congress Explicitly Made Extraterritorial Activities Part of Several of the Patent Statues

Congress defined patent infringement in 35 U.S.C. § 271. While Congress has limited certain portions of the statute to activities occurring solely within the U.S., it has expressly covered, in other portions of the statute, activities in the U.S. coupled with activities in foreign countries.

On their face, activities that give rise to infringement defined in Sections 271(a)-(e), inclusive, are limited to actions occurring in the United States.

- Section 271(a) defines infringing activities to include (i) making, (ii) using, (iii) offering to sell, or (iv) selling any patented invention "within the United States," as well as (v) importing any patented inventions into the United States. 35 U.S.C. § 271(a).

- Section 271(b) defines inducement, without mention of location. However, the predicate for infringement is § 271(a), which focuses on activity in the U.S.

- Section 271(c) addresses contributory infringement, and requires an offer to sell, a sale, or importation of a specified component within the U.S. Therefore, extraterritorial activities are not covered.

- Section 271(d) places limits on infringement under §§ 271(a), (b) and (c).

- Section 271(e) addresses activities occurring within the U.S. with regard to drugs or biological products, *i.e.*, unique situations not present here.

On the other hand, both Sections 271(f), which is relevant here, and 271(g) explicitly address extraterritorial activities.

- Section 271(f) is directed to those who would otherwise supply all or a substantial portion of the components of a patented invention in or from the U.S., with the components then assembled outside of this country, just to avoid infringement. On its face, § 271(f) requires significant activity in this country as a *sine qua non* of patent infringement.

- Section 271(g) extends liability to the importation, offers to sell, sales, or uses of a product within the U.S., where the product is made outside the U.S. by a process patented in the U.S. Again, no infringement takes place unless a significant act is performed in this country. By itself, performing the patented process entirely outside of the U.S. is not considered infringement at all.

C. Because Infringement Occurred in the United States, Section 271(f) Does Not Prohibit the Court from Considering Foreign Activities in Measuring Appropriate Damages

Sections 271(f)(1) and 271(f)(2) form the basis for the infringement judgment affirmed by the Federal Circuit. Together, those sections provide that any person who supplies from the United States in an uncombined manner: (i) all or a substantial portion of the components of a patented invention (§ 271(f)(1)), or (ii) any component of a patented invention that is especially made or especially adapted for use in the invention and is not a staple article of commerce (§ 271(f)(2)), shall be liable as an infringer if the components or component become combined outside of the United States in a manner that would infringe the patent if such combination had occurred in the United States.

ION's infringement of WesternGeco's patents occurred in the United States. ION does not dispute that it manufactured components of the patented sensor systems in the U.S. and then exported them to foreign countries where such components were combined. That combination resulted in the jury's verdict of infringement of the four asserted patents under both 35 U.S.C. §§ 271(f)(1) and 271(f)(2). Pet.App. 170a-171a. (Because the district court held on summary judgment that ION infringed claim 18 of the '520 patent under 35 U.S.C. § 271(f)(1), that claim was before the jury only as to infringement under 35 U.S.C. § 271(f)(2). Consequently, in the district court, all of the asserted claims were held to have been infringed

under each of these statutes. *WesternGeco – I*, 791 F.3d at 1343-44.) The Federal Circuit unanimously affirmed the § 271(f)(2) infringement findings, *id.* at 1354, and ION did not petition this Court for review of them.

As to damages, the jury awarded WesternGeco lost profits of $93,400,000 and a reasonable royalty of $12,500,000. On appeal, ION did not challenge the reasonable royalty award but did challenge the "award of lost profits resulting from lost contracts for services to be performed abroad." *Id.* at 1349. On this issue, the majority held that "lost profits cannot be awarded for damages resulting from these lost contracts." *Id.* Judge Wallach dissented from the majority's lost profits holding and would have permitted such lost profits. *Id.* at 1354-1364.

Although the infringement in this case indisputably occurred in the United States, the Federal Circuit devised a rigid, *per se* rule precluding recovery of lost profits damages caused by infringement under § 271(f) if those damages arose outside of the U.S. The Federal Circuit misconstrues and misapplies the clear and unambiguous language of § 271(f) and the reasons why Congress enacted that statute. Rather than treating § 271(f) as a separate, stand-alone liability statute, the court read that section as identical to §§ 271(a) – (b) in territorial scope. But, that conclusion is erroneous because § 271(f) clearly states that certain actions occurring within the United States coupled with activities

occurring outside the United States will give rise to infringement liability within the U.S.[5]

There is no question that ION's infringement under Section 271(f) required consideration of actions both in the U.S. and outside the U.S. That is what Sections 271(f)(1) and 271(f)(2) demand and that is what the jury found. The question to be answered is the scope of damages available to WesternGeco for that infringement.

The answer to that question is found in Section 284, which plainly provides that a successful patent owner "shall" recover "damages adequate to compensate for the infringement," with no statutory

---

[5] Section 271(f) states:

> "(1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.
>
> (2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer."

restriction on where those damages are deemed to have occurred, thus ensuring that the infringer pays for tort it has committed. *Cf. General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 654-55 (1983) ("Congress sought [by Section 284] to ensure that the patent owner would in fact receive full compensation for '*any damages*' he suffered as a result of the infringement," emphasis in original, quoting H.R. Rep. No. 1587, 79th Cong., 2d Sess. 1-2 (1946)). Indeed, the Federal Circuit itself has embraced this conclusion. *King Instruments Corp. v. Perego*, 65 F.3d 941, 947 (Fed. Cir. 1995) ("Section 284 imposes no limitation on the types of harm resulting from infringement that the statute will redress. The section's broad language awards damages for any injury as long as it resulted from the infringement."). One manner of determining those damages is a lost profits analysis. Among other things, this analysis requires evidence on the amount of infringing sales made by the defendant so that the patent owner plaintiff can show the profits it would have received had it made those sales.

The foreign activities here resulted in the sales upon which WesternGeco based its lost profits damages. The majority concluded that if an award of lost profits was measured by activity occurring in a foreign country that would give an extraterritorial effect to the patent statute. *WesternGeco – I*, 791 F.3d at 1349-51. Specifically, the Federal Circuit held that "[j]ust as the United States seller or exporter of a final product cannot be liable for use abroad, so too the United States exporter of component parts cannot be liable for use of the infringing article abroad." *Id.* at 1351. In so holding, the majority erred.

Of particular relevance to the present case, both this Court and the Federal Circuit have relied at least in part, on foreign sales in the calculation of damages based on domestic infringement. For example, in *Goulds' Mfg. Co. v. Cowing*, 105 U.S. 253 (1881), the Court included the sale of pumps used in both the U. S. and Canada as a basis for the lost profits damage calculations. Similarly, in *R.R. Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1519 (Fed. Cir. 1984), the Federal Circuit held that "the award includes royalties for 1,671 carsets sold to foreign customers for installation in truck assemblies in foreign countries." The court further held that infringement was complete when the carsets were made in the U.S., and that "[w]hether those carsets were sold in the U.S. or elsewhere is therefore irrelevant." *Id.*

This precedent establishes that foreign activities may be considered in relation to damage calculations, provided there is a connection between those foreign activities and instances of domestic infringement. These considerations follow from § 284's express requirement that a court "*shall* award the claimant damages *adequate to compensate for the infringement*," 35 U.S.C § 284 (emphasis added), along with this Court's recognition that when promulgating § 284, Congress sought to ensure that the patent owner would receive full compensation for any damages arising from the infringement. *General Motors Corp., supra*, 461 U.S. at 654–55.

When determining lost profits, the patent statutes provide that an issued patent has "the attributes of personal property." 35 U.S.C. § 261. Patent infringement is a tort. *See, e.g., Schillinger v.*

United States, 155 U.S. 163 (1894). Thus, the traditional "but for" tort law test is useful in determining the amount of damages. In tort law, compensatory damages are used to put the injured party in the same position she would have been had the tort not been committed. The Federal Circuit too has recognized this principle. *Mentor Graphics Corp. v. Eve-USA, Inc.*, 851 F.3d 1275, 1284 (Fed. Cir. 2017) ("Compensatory damages are a staple across most every area of law. And compensatory damages under the patent statute, which calls for damages adequate to compensate the plaintiff for its loss due to the defendant's infringement, should be treated no differently than the compensatory damages in other fields of law." Citing *Livesay Window Co. v. Livesay Indus., Inc.*, 251 F.2d 469, 471 (5th Cir. 1958)). This Court has noted that the "but for" damages a patentee must establish answer the question "had the Infringer not infringed, what would Patent Holder-Licensee have made?" *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964), quoting *Livesay Window*, *supra*, 251 F.2d at 471. The patent damages statute is consistent with the damages approach taken in tort law.

At trial, the parties addressed lost profits by following the "but for" approach laid out 40 years ago in *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978). As the district court noted, the evidence presented to the jury "satisfies the *Panduit* test, which creates a presumption of 'but for' causation when met." *WesternGeco L.L.C. v. ION Geophysical Corp.*, 953 F.Supp.2d 731, 756 (S.D.Tx. 2013). The long accepted *Panduit* test requires the patent owner to prove:

(i) demand for the patented product, (ii) absence of acceptable non-infringing substitutes, (iii) the patent owner's manufacturing and marketing capability to exploit the demand, and (iv) the amount of the profit the patent owner would have made. *Panduit*, 575 F.Supp.2d at 1156; *see e.g., State Industries, Inc. v. Mor-Flow Industries, Inc.*, 883 F.2d 1573, 1577 (Fed. Cir. 1989) (referring to the *Panduit* test as a "standard way of proving lost profits" and stating that "we have accepted it as a nonexclusive standard for determining lost profits." Citations omitted); *Mentor Graphics, supra,* 851 F.3d at 1284-85 (The *Panduit* test is "[o]ne 'useful but nonexclusive' method to establish the patentee's entitlement to lost profits. . ." (citations omitted).

The Federal Circuit did not address the evidence that the district court held supported a lost profits award under *Panduit*; instead, the appellate court found that an award of lost profits based on foreign activity would be an extraterritorial application of the patent laws.

But, the patent damage statute has no express territorial limitation. Rather the statute is aimed at addressing the amount of recovery that a successful patent owner "shall" receive. Had Congress wanted to limit the application of Section 284 to events occurring only in the U.S., it could have amended that statute at the same time it enacted Section 271(f) in response to the Court's decision in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972). That decision held that under the infringement statutes applicable then, infringement was avoided if parts of a patented product were shipped to foreign countries where they

were then combined to form the patented product. But Section 271(f) nullified the effect of *Deepsouth*.

Congress, however, did not amend the damages Section 284 to add a territorial limitation, even though Section 271(f) envisioned that there would be activity in foreign countries that would result in an infringement within the U.S. The Federal Circuit's prohibition of applying Section 284 to foreign activities, in connection with Section 271(f) infringement, negates Section 271(f), and will, if this Court affirms, require a Congressional do-over to ensure that the full scope of Sections 271(f) and 284 is available to patent owners.

The Court pre-saged the question presented here in *eBay Inc. v. MercExchange LLC*, 547 U.S. 388 (2006), which addressed the appropriateness of the Federal Circuit's unique "general rule" regarding issuance of permanent injunctions, ultimately reversing the court and finding that the principles of equity apply to issuance of injunctions in patent infringement matters. *eBay*, 547 U.S. at 393-94. There, the Court stated:

> To be sure, the Patent Act also declares that "patents shall have the attributes of personal property," § 261, including "the right to exclude others from making, using, offering for sale, or selling the invention," § 154(a)(1). According to the Court of Appeals, this statutory right to exclude alone justifies its general rule in favor of permanent injunctive relief. 401 F. 3d

> at 1338. *But the creation of a right is distinct from the provision of remedies for violations of that right.* (*Id.* at 392, emphasis added)

Here, ION's violation of Section 271(f) created the WesternGeco's right to recover damages under the distinct damages statute, Section 284. By appreciating this distinction between liability and damages, and that Section 271(f) tied domestic infringement to additional activities occurring outside the U.S., there is no impermissible extraterritorial application of the U.S. patent laws. Here, the lost profits outside the U.S. that are sufficiently related to the domestic infringement can be used to determine the amount of damages adequate to compensate WesternGeco for infringement of its patents. *WesternGeco – I*, 791 F.3d at 1354-56, Judge Wallach dissenting-in-part; *WesternGeco – II*, 837 F.3d at 1365-67, Judge Wallach dissenting-in-part.

Where the majority strayed was in failing to recognize the distinction between liability and damages. The liability judgment, affirmed by the Federal Circuit, was based solely on ION's actions in the U.S. with no extraterritorial application of U.S. law. Had the court appreciated the distinction between liability and damages, it undoubtedly would have applied the patent damages statute in the traditional manner. That statute mandates that a successful patent owner "shall" be awarded "damages adequate to compensate for the infringement." 35 U.S.C.§ 284.

D. The Federal Circuit's Refusal to Permit Lost Profits for Section 271(f) Liability Will Have a Significant Adverse Impact on U.S. Businesses

The Federal Circuit's decision is likely to have a significant adverse impact on patenting and global trade practices.

The *quid pro quo* for obtaining a U.S. patent is the disclosure of the invention "in such full, clear, concise, and exact terms as to enable any person skilled in the art . . . to make and use the same . . ." 35 U.S.C. § 112(a). Patent applicants and owners recognize that the detailed nature of these disclosures allows the public to understand the inventions. The disclosure also advances science and technology by encouraging others to improve the disclosed inventions or to devise approaches that might avoid infringement but be competitive with the patented invention.

If allowed to stand, the Federal Circuit's decision of no lost profits damages for a Section 271(f) infringement will cause patent applicants and patent owners having an international business reach to rethink the desirability of seeking and obtaining patents. In particular, there are classes of inventions in which the reliance on trade secret laws and confidentiality (*i.e.*, non-disclosure) agreements may be used to keep the details of the inventions out of the public domain while affording the owners a distinct competitive advantage that other companies could not match. Taking this approach could be beneficial to the owner of the invention, but detrimental to the public at large. Ensuring that the patent owner can obtain its

proven lost profits damages for Section 271(f) infringements incentivizes inventors and businesses to seek patents and disclose the details of their inventions to the public.

Similarly, a company having an international business and a patent portfolio covering the products it sells may have to consider whether the Federal Circuit's decision, if affirmed, will affect the monetary value of that portfolio. That company may not be able to obtain the amount of damages adequate to compensate for the Section 271(f) infringement.

Finally, the appellate court's decision will incentivize some companies to manufacture component parts in the U.S. and ship them off-shore for assembly, knowing that any damages that might be levied for a Section 271(f) infringement would exclude any of the patentee's lost profits. Surely, that is *not* the intent of the patent damages statute. Under Section 284, a patent owner shall be awarded "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use of the invention by the infringer." The appellate court's ruling improperly makes a reasonable royalty award the "ceiling" and not the "floor" under Section 284.

In any event, U.S. and foreign attorneys aware of the Federal Circuit's decision will likely be asked to advise U.S. and foreign clients as to what can be done in order to comply with or avoid the results of that decision, either as a patent owner or a potential Section 271(f) infringer. A reversal of the appellate court's decision will affirmatively reinforce the patent damages statute's requirement that the patent owner

"shall" recover "damages adequate to compensate for the infringement . . ." 35 U.S.C § 284.

IV. CONCLUSION

For the foregoing reasons, IPLAC respectfully suggests that the Court reverse the Federal Circuit and, on the question presented, hold that proven lost profits damages are recoverable for patent infringement found under 35 U.S.C. § 271(f), irrespective of where those damages are determined to have arisen or occurred.

Respectfully submitted,

PAUL R. KITCH
President
THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO
P.O. Box 472
Chicago, IL 60690

JOHN LINZER
QUARLES & BRADY LLP
300 N. LaSalle St., #4000
Chicago, IL 60654
(312) 715-5000

DONALD W. RUPERT
COUNSEL OF RECORD
MARSHALL, GERSTEIN & BORUN LLP
233 S. Wacker Drive, #6300
Chicago, IL 60606
(312) 474-6300
drupert@marshallip.com

DAVID L. APPLEGATE
WILLIAMS MONTGOMERY & JOHN
233 S. Wacker Dr., #6100
Chicago, IL 60606
(312) 443-3200

March 2, 2018

No. 16-1011

IN THE

Supreme Court of the United States

WESTERNGECO LLC,
Petitioner,

—v.—

ION GEOPHYSICAL CORPORATION,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF INTELLECTUAL PROPERTY LAW SCHOLARS AS *AMICI CURIAE* IN SUPPORT OF NEITHER PARTY

TIMOTHY R. HOLBROOK
Counsel of Record
Emory University
School of Law
1301 Clifton Road
Atlanta, Georgia 30322
tholbrook@emory.edu
(404) 712-0353

SARAH M. SHALF
Emory Law School
Supreme Court
Advocacy Program
1301 Clifton Road
Atlanta, Georgia 30322
sshalf@emory.edu
(404) 712-4652

Counsel for Amici Curiae

TABLE OF CONTENTS

TABLE OF CONTENTS i

TABLE OF AUTHORITIES iii

INTEREST OF THE AMICI CURIAE 1

SUMMARY OF THE ARGUMENT 1

ARGUMENT 2

I. THE PRESUMPTION AGAINST EXTRATERRITORIALITY SHOULD APPLY TO REMEDIAL STATUTORY PROVISIONS. 2

A. The Supreme Court Has Emphasized the Importance of the Presumption Against Extraterritoriality, Particularly in the Context of Patent Law. 2

B. The Supreme Court Has Never Expressly Held Whether the Presumption Applies Separately to Remedial Provisions After a Determination of Liability Has Been Made. 6

C. The Presumption Against Extraterritoriality Should Apply Separately to Remedial Statutory Provisions. 8

II. APPLICATION OF THE PRESUMPTION IN THIS CASE WOULD STILL PERMIT AN AWARD OF DAMAGES. 10

III. THE SUPREME COURT SHOULD ELABORATE ON WHAT COURTS SHOULD DO AFTER CONCLUDING EITHER STEP ONE OR

STEP TWO OF RJR NABISCO HAS BEEN SATISFIED. 14

A. Courts Should Expressly Consider Potential Conflicts with Foreign Law and Other Comity Concerns When Deciding Whether to Apply a Statute Extraterritorially. 15

B. The Court Should Explain Whether the Presumption or Other Concerns of Extraterritoriality Should Inform Proximate Cause. 19

CONCLUSION 22

APPENDIX – LIST OF SIGNATORIES 1a

TABLE OF AUTHORITIES

Cases

Brown v. Duchesne, 60 U.S. 183 (1856) 3
Carnegie Mellon University v. Marvell Technology Group, Ltd., 807 F.3d 1283 (Fed. Cir. 2015).....9, 21
Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518 (1972).....3
E.E.O.C. v. Arabian Am. Oil Co., 499 U.S. 244 (1991).....2
Foley Bros. v. Filardo, 336 U.S. 281 (1949).....3
Gen. Motors Corp. v. Devex Corp., 461 U.S. 648 (1983).....11
Kiobel v. Royal Dutch Petroleum Co., 569 U.S. 108 (2013).....2, 16
Life Techs. Corp. v. Promega Corp., 137 S. Ct. 734 (2017).....12, 14, 15
Microsoft Corp. v. AT&T Corp., 550 U.S. 437 (2007).....3, 5, 14
Morrison v. Nat'l Australia Bank Ltd., 561 U.S. 247 (2010).....2, 16
NTP, Inc. v. Research In Motion, Ltd., 418 F.3d 1282 (Fed. Cir. 2005) 12
Power Integrations v. v. Fairchild Semiconductor, 711 F.3d 1348 (Fed. Cir. 2013) 8, 9
Rite-Hite Corp. v. Kelley Co., Inc., 56 F.3d 1538 (Fed. Cir. 1995) 19, 20
RJR Nabisco, Inc. v. European Cmty., *136 S. Ct. 2090 (2016)*..... passim
Star–Kist Foods, Inc. v. P.J. Rhodes & Co., 769 F.2d 1393 (9th Cir. 1985).....18
Steele v. Bulova Watch Co., Inc., 344 U.S. 280 (1952).....17

Trader Joe's Co. v. Hallatt, 835 F.3d 960 (9th Cir. 2016) 17
WesternGeco L.L.C. v. ION Geophysical Corp., 136 S. Ct. 2486 (2016) 21
WesternGeco L.L.C. v. ION Geophysical Corp., 791 F.3d 1340 (Fed. Cir. 2015) 21
WesternGeco L.L.C. v. ION Geophysical Corp., 837 F.3d 1358 (Fed. Cir. 2016) 21
Zoltek Corp. v. United States, 672 F.3d 1309 (Fed. Cir. 2012) 12

Statutes

35 U.S.C. § 271(a) 11
35 U.S.C. § 271(f)(1) 4, 13
35 U.S.C. § 271(f)(2) 5, 13
35 U.S.C. § 284 7

Other Authorities

Amy Landers, *U.S. Patent Extraterritoriality Within the International Context*, 36 REV. LITIG. BRIEF 28 (2016) 10, 18
Brief for Petitioner (filed Feb. 23, 2018) 8
Brief for the United States as Amicus Curiae (filed Dec. 6, 2017) 8
Maggie Gardner, RJR Nabisco *and the Runaway Canon*, 102 VA. L. REV. ONLINE 134 (2016) 7, 15
Mark A. Lemley, *The Fruit of the Poisonous Tree in IP Law*, 103 IOWA L. REV. 245 (2017) 21
Sapna Kumar, *Patent Damages Without Borders*, 25 TEX. INTELL. PROP. L.J. 73 (2017) 7, 18
Timothy R. Holbrook, *Boundaries, Extraterritoriality, and Patent Infringement Damages*, 92 NOTRE DAME L. REV. 1745 (2017) ..... passim

Timothy R. Holbrook, *Extraterritoriality in U.S. Patent Law*, 49 WM. & MARY L. REV. 2119 (2008) 5, 10, 18

Rules

Supreme Court Rule 37.6 1

INTEREST OF THE *AMICI CURIAE*[1]

Amici are law professors who specialize in intellectual property law and who have previously published on, or have interest in, the issue of extraterritoriality. Amici have no personal stake in the outcome of this case but have an interest in seeing that the patent laws develop in a way that promotes rather than impedes innovation. A complete list of amici is included in Appendix A.

SUMMARY OF THE ARGUMENT

This case presents an issue of importance that transcends patent law: whether the presumption against the extraterritorial application of U.S. laws applies separately to the remedial provisions of a statute. Here, the issue arises in the context of damages under 35 U.S.C. § 284 of the Patent Act that arise from infringement under an expressly extraterritorial provision, 35 U.S.C. § 271(f).

The Supreme Court should first conclude that the presumption does apply to remedial provisions. That

---

[1] Pursuant to Supreme Court Rule 37.6, *amici curiae* affirm that no counsel for a party authored this brief in whole or in part, that no counsel or a party made a monetary contribution intended to the preparation or submission of this brief and no person other than *amici curiae*, their members, or their counsels made a monetary contribution to its preparation or submission.

Both Petitioner and Respondent filed blanket consent to the filing of amicus curiae briefs, both of which are on file with the clerk.

conclusion should not end the inquiry, however. The Court should require a formal consideration of comity and potential conflicts with foreign law before allowing an award of damages arising outside of the United States. Additionally, the presumption against extraterritoriality should be considered as part of the proximate cause analysis when determining whether the asserted damages are appropriate.

ARGUMENT

I. THE PRESUMPTION AGAINST EXTRATERRITORIALITY SHOULD APPLY TO REMEDIAL STATUTORY PROVISIONS.

A. The Supreme Court Has Emphasized the Importance of the Presumption Against Extraterritoriality, Particularly in the Context of Patent Law.

The Supreme Court has established that there is a strong presumption against the extraterritorial application of U.S. law. *See, e.g., RJR Nabisco, Inc. v. European Cmty., 136 S. Ct. 2090, 2101, 2106 (2016)* (finding presumption rebutted for § 1962 of Racketeer Influenced and Corrupt Organizations Act but not § 1964(c)); *Kiobel v. Royal Dutch Petroleum Co.*, 569 U.S. 108, 124 (2013) (relying on presumption to decline to extend reach of Alien Tort Statute); *Morrison v. Nat'l Australia Bank Ltd.*, 561 U.S. 247, 265 (2010) (relying on presumption to decline application of United States securities law to foreign conduct); *E.E.O.C. v. Arabian Am. Oil Co.*, 499 U.S. 244, 259 (1991) (using presumption to decline

application of Title VII to employment practices of U.S. employers employing U.S. citizens abroad). Although Congress undisputedly has the authority to regulate acts outside of the territorial boundaries of the United States, the Court has recognized that "legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States . . . ." *Foley Bros. v. Filardo*, 336 U.S. 281, 285 (1949).

The Court has noted that the presumption is particularly appropriate in the context of patent law. *See Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454-55 (2007) ("The presumption that United States law governs domestically but does not rule the world applies with particular force in patent law."). As far back as 1856, this Court rejected the extraterritorial reach of a patent: "The power thus granted is domestic in its character, and necessarily confined within the limits of the United States." *Brown v. Duchesne*, 60 U.S. 183, 195 (1856) (holding U.S. patent rights do not extend to invention on foreign vessel in U.S. port).

More recently, this Court again rejected a party's attempt to use its patent to control extraterritorial activity. In *Deepsouth Packing Co. v. Laitram Corp.*, the Supreme Court concluded that the manufacture of all components of a patented invention in the United States, that subsequently was assembled abroad, did not constitute infringement of a U.S. patent. 406 U.S. 518, 529 (1972). The Court emphasized that "[o]ur patent system makes no claim to extraterritorial effect." *Id.* at 531.

Congress legislatively overturned the extraterritorial aspect of *Deepsouth* by adopting 35 U.S.C. § 271(f) in 1984. Section 271(f), the statutory provision at issue in this case, focuses on acts of exportation to foreign markets. The provision defines two forms of infringement. The first directly relates to the specific fact pattern in *Deepsouth*:

> Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

35 U.S.C. § 271(f)(1). Second, Congress went beyond the facts of *Deepsouth* to afford patent owners additional protections from the exportation of components with no non-infringing substitutes:

> Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component

> will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

35 U.S.C. § 271(f)(2).

This Court has relied on the presumption against extraterritoriality to construe that provision narrowly. In *Microsoft Corp. v. AT&T Corp.*, the Court held that (1) only computer software, not software in the abstract, could constitute a "component" under § 271(f), 550 U.S. 437, 449-50 (2007), and (2) such components were not "supplied" under § 271(f) when copies of the software were made outside of the United States. *Id.* at 452-54. To support this interpretation, the Court specifically noted that "[a]ny doubt that Microsoft's conduct falls outside § 271(f)'s compass would be resolved by the presumption against extraterritoriality . . . ." *Id.* at 454. Notwithstanding that Congress explicitly abrogated *Deepsouth* as it relates to exports to afford some extraterritorial protection to U.S. patent holders, the Court rejected AT&T's argument that the presumption was inapplicable and used the presumption to construe § 271(f) narrowly. *Id.* at 454-56. *See generally* Timothy R. Holbrook, *Extraterritoriality in U.S. Patent Law*, 49 WM. & MARY L. REV. 2119, 2135-36 (2008) [hereinafter *Extraterritoriality*] (discussing importance of the use of the presumption in *Microsoft*).

The Supreme Court's explication of the presumption culminated in *RJR Nabisco, Inc. v. European Community*, 136 S. Ct. 2090 (2016), where

the Court articulated a two-step framework for addressing whether a statute has extraterritorial reach. First, a court must determine whether the statute gives a clear, affirmative indication that it applies extraterritorially, thereby rebutting the presumption against it. *Id.* at 2101. Satisfying step one is sufficient to end the inquiry, and a court need only proceed to step two if step one is not met. *Id.*

If the statute does not clearly have extraterritorial reach, step two requires a court to look at the location of the conduct relevant to the statute's focus. *Id.* The statute's application is domestic (and therefore within the court's jurisdiction) when the conduct relevant to the statute's focus occurred in the United States, even if other conduct occurred abroad. *Id.* The statute's application is extraterritorial and thus impermissible when conduct relevant to the focus occurred in a foreign country regardless of any other conduct that occurred in the United States. *Id.*

B. The Supreme Court Has Never Expressly Held Whether the Presumption Applies Separately to Remedial Provisions After a Determination of Liability Has Been Made.

In all of the cases in which the Court has addressed the presumption against extraterritoriality, it has confronted an issue of liability: whether activities outside of the United States could nevertheless create liability within the United States.

This case is different. The issue is the availability of damages for activities arising outside the territorial United States. This Court has never squarely

addressed whether the presumption applies to remedial provisions. This Court has intimated that the presumption applies at all levels of a statutory scheme. *See RJR Nabisco*, 136 S. Ct. at 2106 (rejecting Second Circuit's holding that "the presumption against extraterritoriality did not apply to § 1964(c) independently of its application to § 1962"); *see also* Maggie Gardner, RJR Nabisco *and the Runaway Canon*, 102 VA. L. REV. ONLINE 134, 139 (2016) ("[T]he Court announced a new requirement that the presumption be applied separately to every statutory provision, whether substantive, remedial, or jurisdictional."). Indeed, in *RJR Nabisco*, a four justice majority of the Court applied the presumption separately to different provisions of the statute, suggesting that the presumption would separately apply to remedial provisions of a statute. *See* Sapna Kumar, *Patent Damages Without Borders*, 25 TEX. INTELL. PROP. L.J. 73, 103 (2017).

To address the question presented in this case, the Court must necessarily answer this question. Here, liability has been established under § 271(f). The only issue is the appropriate scope of damages permitted under 35 U.S.C. § 284, the damages provision of the Patent Act. That provision notes that "the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. § 284. Although § 284 does not note any territorial limitations itself, it does reference acts of infringement, which are defined by 35 U.S.C. § 271. Answering whether the presumption applies to § 284, therefore, is a necessary prerequisite

to determining whether damages should be available in this case.

C. The Presumption Against Extraterritoriality Should Apply Separately to Remedial Statutory Provisions.

The presumption against extraterritoriality should apply both in the liability and the remedies contexts. The line between liability and damages is gossamer thin. The question of whether one is liable for extraterritorial conduct leads to the same place—that is, the determination of the extraterritorial reach of a U.S. patent right. From an extraterritorial perspective, a determination of liability or an award of damages both attempt to regulate conduct outside of the United States. Only applying a "one pass" rule for the presumption, as argued by both the Petitioner, *see* Brief for Petitioner at 46 (filed Feb. 23, 2018), and the United States, *see* Brief for the United States as Amicus Curiae at 14 (filed Dec. 6, 2017), would impermissibly permit certain damages arising from foreign activity and inappropriately extend the reach of United States patent law outside the territorial limits established in the *Microsoft* case.

The precursors to the present case show the danger in failing to apply the presumption separately to damages. For example, in *Power Integrations v. v. Fairchild Semiconductor*, 711 F.3d 1348 (Fed. Cir. 2013), the Federal Circuit confronted a scenario where there was an act of domestic infringement under 35 U.S.C. § 271(a), which is limited to acts "within the United States." *Id.* at 1348. The patentee, however, sought damages for the lost profits for its

foregone sales outside of the United States that arose as a result of the domestic act of infringement. *Id.* The Federal Circuit rejected the damages theory based on a strict territorial rule regarding patent damages. If the presumption did not apply to remedies, however, then there would have been an odd result: the statute would have failed both steps one and two of the *RJR Nabisco* test because the statute is clearly territorial and the focus of the statute is infringing acts within the United States. Indeed, it is conceivable that a court would never have thought to consider the presumption at the liability phase. Yet, any and all damages that possibly could flow from those domestic acts would be permissible, regardless of where the acts triggering those damages arose. Effectively, the patentee would be using its United States patent to regulate those foreign sales.

Subsequent to *Power Integrations*, the Federal Circuit encountered a similar scenario, with the patentee seeking a reasonable royalty as damages under 35 U.S.C. § 284. In *Carnegie Mellon University v. Marvell Technology Group, Ltd.*, 807 F.3d 1283 (Fed. Cir. 2015), there was a domestic use of the patented invention; the patentee, however, sought a reasonable royalty for the defendant's sales made overseas. *Id.* at 1305. The Federal Circuit, relying on *Power Integrations*, rejected such damages. *Id.* at 1310-11. A failure to apply the presumption separately to both liability and damages would result in allowing the patentee, through the use of reasonable royalties, to attempt to regulate foreign activities.

These cases demonstrate that a liability versus remedies line is a distinction without a difference. The acts that generated the damages sought by the patentee could also have triggered liability in the relevant countries where their foreign acts occurred. Whether these are viewed as now-past acts that trigger liability (upon which damages could be based) or seen as a pure damages issue is irrelevant to the policies that underlie the presumption, including concerns of comity and interference with the sovereignty of another country. Holbrook, *Extraterritoriality*, *supra*, at 2126-27 (2008); Amy Landers, *U.S. Patent Extraterritoriality Within the International Context*, 36 REV. LITIG. BRIEF 28, 28-29 (2016).

II. APPLICATION OF THE PRESUMPTION IN THIS CASE WOULD STILL PERMIT AN AWARD OF DAMAGES.

Application of the *RJR Nabisco* framework in this case would permit an award of damages in this case under § 271(f). This contrasts significantly with how the presumption would apply to infringement under § 271(a), as was the case in *Power Integrations* and *Carnegie Mellon*.

Section 284 is textually silent as to its territorial limits. Instead, it references "damages adequate to compensate for the infringement," thus incorporating the acts in the separate subsections of § 271. While § 284 is meant to be compensatory in nature, *see Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655

(1983),[2] such focus does not mandate that territorial limits be ignored. That finding would fly in the face of the presumption against territoriality. Instead, a court should look at the relevant infringement provision to assess the territorial limits of damages for that provision. *See* Timothy R. Holbrook, *Boundaries, Extraterritoriality, and Patent Infringement Damages*, 92 NOTRE DAME L. REV. 1745, 1777-78 (2017).

The various infringement provisions of § 271 differ significantly in their scope and purpose. As such, it would be inappropriate to treat all of them collectively under the presumption, as the Federal Circuit has apparently done, for purposes of assessing the appropriate territorial limit on patent damages. *Id.* at 1778. Application of step one of *RJR Nabisco*, therefore, leads to different outcomes as to the availability of damages under § 284 for infringement under § 271(a) and § 271(f).

Section 271(a) has strict territorial limits, limiting liability to acts "within the United States" or importation "into the United States." 35 U.S.C. § 271(a). With its strict territorial language, step one of *RJR Nabisco* would not be satisfied. There is no intent on the part of Congress to embrace foreign activity under § 271(a). In all likelihood, damages arising from infringement under § 271(a) would likely fail step two as well. Analysis of step two in isolation,

---

[2] The Court was not addressing the full scope of damages permissible in *General Motors*; instead, the narrow issue before it was "the standard applicable to the award of prejudgment interest under 35 U.S.C. § 284." *Gen. Motors*, 461 U.S at 651.

without the particular facts of the case, is difficult. In the main, however, we would expect damages for foreign-based conduct on the part of a defendant to fail step two given the territorial limits because the infringing acts would need to be within the United States.[3]

In contrast, Congress enacted § 271(f) with the express purpose of creating extraterritorial reach to United States patent holders. Congress wanted to "to fill a gap in the enforceability of patent rights," *Life Techs. Corp. v. Promega Corp.*, 137 S. Ct. 734, 743, (2017), created by *Deepsouth*'s embrace of strict territorial limits to United States patent protection. By adopting § 271(f), Congress expressly contemplated the regulation of foreign markets, satisfying step one of *RJR Nabisco*.

---

[3] Step two might be satisfied in the situation of trans-border acts of infringement, where the primary act of infringement, such as use of the patented invention, arose in the United States. In that case, the focus of § 271(a) – the use of the invention – arose in the United States, although certain other acts arose outside of the United States. Such a scenario can be seen in *NTP v. Research in Motion*, where the Federal Circuit concluded there was patent infringement for the use of the Blackberry® system. In *NTP, Inc. v. Research In Motion, Ltd.*, part of the infringing system was located in Canada. 418 F.3d 1282, 1317 (Fed. Cir. 2005), *abrogated on other grounds by Zoltek Corp. v. United States*, 672 F.3d 1309 (Fed. Cir. 2012). The Federal Circuit nevertheless concluded that customers used the system within the United States because "RIM's customers located within the United States controlled the transmission of the originated information and also benefited from such an exchange of information." *Id.* Given the focus of the statute – infringing uses within the United States – a court could conclude that such a scenario satisfies step two of *RJR Nabisco*. *See* Holbrook, *Boundaries*, *supra*, at 1780.

Section 271(f) does require some domestic acts for there to be infringement. Specifically, an infringer must "suppl[y] or cause[] to be supplied in or from the United States" either "all or a substantial portion of the components of a patented invention" or "any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity." 35 U.S.C. §§ 271(f)(1) & (2). The markets at stake, however, are not domestic markets. Instead, they are the foreign markets to where the components are being exported. Step one of *RJR Nabisco*, therefore, is satisfied because Congress spoke to extraterritoriality in the statute. *See* Holbrook, *Boundaries*, *supra* at 1783.

Technically, consideration of step two of the *RJR Nabisco* analysis is not required because step one is satisfied. Nevertheless, the *RJR Nabisco* test would also be satisfied at step two as the focus of the statute is exportation of components intended to be combined overseas to create the patented invention, thus contemplating relief for conduct in foreign markets. Step two's consideration of § 271(f)'s "focus," in conjunction with § 284's remedial purpose, further supports affording damages for extraterritorial acts. Congress designed the statute to protect patent owners against the territorial arbitrage present in *Deepsouth*.

Consequently, applying the *RJR Nabisco* framework here would permit an award of damages for lost profits in this case because Congress has demonstrated its intent to permit extraterritorial reach under § 271(f) and consequently for damages under § 284 for damages under that provision.

III. THE SUPREME COURT SHOULD ELABORATE ON WHAT COURTS SHOULD DO AFTER CONCLUDING EITHER STEP ONE OR STEP TWO OF *RJR NABISCO* HAS BEEN SATISFIED.

As presently articulated, the *RJR Nabisco* test appears to operate like a light switch – the statute either has extraterritorial reach or it does not. This approach is inconsistent with previous articulations of the presumption, however. For instance, the Court relied on the presumption in *Microsoft Corp. v. AT & T Corp.*, to afford a narrow interpretation to § 271(f). 550 U.S. 437, 454 (2007). The Court used the presumption to narrowly interpret § 271(f), limiting the definition of "component" to exclude software in the abstract and to conclude the defendant had not supplied a component of the invention. *Id.* at 451-52, 454.

The Court's use of the presumption in *Microsoft* suggested a subtler, more pervasive role for the presumption as a means for narrowly interpreting statutes that have extraterritorial reach. Yet, under *RJR Nabisco*, the Court's analysis would stop at step one. Today, it is not clear whether the presumption still operates at the level of statutory interpretation even once the presumption has been rebutted, as the Court reasoned in *Microsoft*.[4] The Court should use

---

[4] This tension was present in *Life Technologies Corp. v. Promega Corp.*, in which the Court interpreted the § 271(f)(1) language referencing "all or a substantial portion" of the components. 137 S. Ct. 734, 737 (2017). Although the Court ultimately did not rely on the presumption at all in reaching its decision – indeed the Court never used the term "presumption" – the tension between *Microsoft* and *RJR Nabisco* was debated during oral

this case as a vehicle to further elaborate on whether the presumption still has teeth even after application of the *RJR Nabisco* framework. *See* Gardner, *supra* at 135 (noting that the Court in *RJR Nabisco* "missed an opportunity to provide much-needed guidance to judges on how to interpret statutes that rebut the presumption").

Two additional considerations should be added to the *RJR Nabisco* framework regarding how to interpret statutes that have rebutted the presumption or otherwise will permit extraterritorial reach. First, courts should expressly consider issues of comity and potential conflicts with foreign law. Second, courts should take into account territoriality in the damages context in analyzing proximate cause.

A. Courts Should Expressly Consider Potential Conflicts with Foreign Law and Other Comity Concerns When Deciding Whether to Apply a Statute Extraterritorially.

Given the increasingly global market, issues of extraterritoriality have come to the fore in patent law. It is increasingly common for goods to cross various borders, implicating the patent laws of a variety of countries. In this regard, *RJR Nabisco* should not be read in a manner that is too capacious. Merely satisfying either step could still result in considerable extraterritorial reach, risking various conflicts with

---

argument. *See* Transcript of Oral Argument at 12, *Life Technologies Corp. v. Promega Corp.*, 137 S. Ct. 734 (No. 14-1538) (Chief Justice noting "once you get over it [the presumption], you know, it's over, and then you apply normal principles."); *see also* Holbrook, *Boundaries*, *supra*, at 1758-59.

foreign jurisdictions' laws, a key consideration underpinning the presumption against extraterritoriality.

The Supreme Court should embrace consideration of comity and potential conflicts of law to balance against this risk. Such an approach is not unwieldy nor even unprecedented. Although the Court has suggested that the "presumption applies regardless of whether there is a risk of conflict between the American statute and a foreign law," *Morrison v. Nat'l Australia Bank Ltd.*, 561 U.S. 247, 255 (2010), in practice the Court has considered possible conflicts.

A review of the Supreme Court's recent cases applying the presumption demonstrate that the Court considers this dynamic, even if the Court does not treat comity as a formal requirement. For example, in *RJR Nabisco* itself, the Court noted that "providing a private civil remedy for foreign conduct creates a potential for international friction beyond that presented by merely applying U.S. substantive law to that foreign conduct." *RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090, 2106 (2016); *see also Kiobel v. Royal Dutch Petroleum Co.*, 569 U.S. 108, 116 (2013) (recognizing that "the danger of unwarranted judicial interference in the conduct of foreign policy is magnified in the context of the ATS, because the question is not what Congress has done but instead what courts may do"). In so stating, the Court was stepping back from the language in *Morrison*. The Court noted in *RJR Nabisco* that, while a conflict "is not a prerequisite for application of the presumption..., where such a risk is evident, the need to enforce the presumption is at its apex." 136 S. Ct.

at 2107. The court emphasized that the mere *potential* for a conflict was sufficient. *Id.* ("It is to say only that there is a potential for international controversy that militates against recognizing foreign-injury claims without clear direction from Congress."). The Supreme Court has made clear that heightened attention to the presumption is appropriate where a potential conflict with foreign law exists. As such, it is appropriate for courts to take comity expressly into account.

The Court specifically embraced the consideration of potential conflicts in the context of the Lanham Act, the federal trademark law. In *Steele v. Bulova Watch Co., Inc.*, the accused infringer was a U.S. citizen selling counterfeit watches bearing the trademark in Mexico. 344 U.S. 280, 281 (1952). The Court expressly looked to a potential conflict of law – the ownership of the trademark – in holding that it was appropriate to apply the Lanham Act extraterritorially. *Id.* at 289.

The U.S. Court of Appeals for the Ninth Circuit recently considered the extraterritorial reach of the Lanham Act post-*RJR Nabisco* and embraced the use of comity considerations. Specifically, in *Trader Joe's Co. v. Hallatt*, the Ninth Circuit applied seven comity factors in assessing whether to apply the Lanham Act extraterritorially:

> (1) the degree of conflict with foreign law or policy, (2) the nationality or allegiance of the parties and the locations or principal places of business of corporations, (3) the extent to which enforcement by either state can be expected to

> achieve compliance, (4) the relative significance of effects on the United States as compared with those elsewhere, (5) the extent to which there is explicit purpose to harm or affect American commerce, (6) the foreseeability of such effect, and (7) the relative importance to the violations charged of conduct within the United States as compared with conduct abroad.

835 F.3d 960, 972-73 (9th Cir. 2016) (quoting *Star–Kist Foods, Inc. v. P.J. Rhodes & Co.*, 769 F.2d 1393, 1395 (9th Cir. 1985)). The Ninth Circuit's approach is consistent with *Bulova* and demonstrates that there is space beyond *RJR Nabisco* for the consideration of potential conflicts of law in assessing whether domestic laws should apply extraterritorially.

A similar approach should be used to inform the extraterritoriality of patent law. To determine whether U.S. patent law should apply to extraterritorial conduct, courts should expressly consider foreign patent law and various conflicts that could arise. *See* Holbrook, *Boundaries,* supra, at 1788-90; Kumar, supra, at 111-12; Landers, *supra*, at 45. Consideration of comity provides appropriate consideration for the sovereignty of foreign countries, who may have different policies regarding their patent regimes. Landers, *supra,* at 39-42 (reviewing variances in different countries' patent laws). Additionally, considering foreign law expressly could have laudable effects of exchanging ideas and views on patents. *See* Holbrook, *Extraterritoriality, supra*, at 2186-88. Courts should review potential conflicts of law if a patent exists in the foreign jurisdiction,

including ownership, validity, infringement, and damages. A consideration of comity concerns would afford a better balance in the application of U.S. law's extraterritoriality than the current approach, which only tacitly acknowledges that concern.

In this case, the lost sales of services arose on the high seas, suggesting that there is no potential conflict of law. It may be the case, therefore, that damages are appropriate in this context. The issue should be squarely addressed on remand to the Federal Circuit or the district court.

B. The Court Should Explain Whether the Presumption or Other Concerns of Extraterritoriality Should Inform Proximate Cause.

The presumption against extraterritoriality should have reach beyond operating as a lever for construing statutes with extraterritorial reach. The presumption could also be used in evaluating proximate cause for damages, in this case under 35 U.S.C. § 284.

Section 284 is expressly compensatory in nature, requiring a court to "award the claimant damages adequate to compensate for the infringement." The Federal Circuit has embraced a broad conception of compensatory damages. In *Rite-Hite Corp. v. Kelley Co., Inc.*, the Federal Circuit held that a patentee could recover lost profits for foregone sales of the patentee's product that was not covered by the patent at issue. 56 F.3d 1538, 1542 (Fed. Cir. 1995) (en banc).

In so doing, the Federal Circuit eschewed a focus on the patent claims themselves in favor of an economic, market-driven approach to compensatory damages. The court recognized that, to receive damages, a patent owner must prove both that, but for the infringement, the patentee would have made the foregone sale, as well as that the infringement was the proximate cause of the plaintiff's injury. *Id.* at 1546. The court noted that proximate cause works to preclude damages that are too remote, and "the question of legal compensability is one 'to be determined on the facts of each case upon mixed considerations of logic, common sense, justice, policy and precedent.'" *Id.* (quoting 1 STREET, FOUNDATIONS OF LEGAL LIABILITY 110 (1906) (quoted in W. PAGE KEETON ET AL., PROSSER & KEETON ON THE LAW OF TORTS § 42, at 279 (5th ed. 1984)). As a result, the Federal Circuit now focuses on whether the damages at issue are reasonably foreseeable to a competitor. *Id.* It is this purely economic-based approach that the petitioner and the United States believe should be the sole limit on damages.

But proximate cause is not so simple. As the Federal Circuit noted, it is not a singular analysis of foreseeability; instead, it is complex inquiry that includes policy and justice, similar to the concerns that underlie the presumption itself. Proximate cause should take into account both the remoteness of the harm from the act generating liability and the extraterritorial reach of potential application of damages.

There seems to be some expansion in the concept of foreseeability in the Federal Circuit's cases. For

example, in *Carnegie Mellon*, the patented invention was a method. *Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*, 807 F.3d 1283, 1306–07 (Fed. Cir. 2015). Instead of damages being awarded for the use of the method, the court permitted the award of a royalty based on the sales of chips that would execute the method. *Id.* As such, the damages are a step removed from the classic measure of damages for infringing a patented method, which would be the value of the use of the method. *See* Holbrook, *Boundaries*, *supra* at 1791 (criticizing *Carnegie Mellon* on proximate cause grounds); *see also* Mark A. Lemley, *The Fruit of the Poisonous Tree in IP Law*, 103 IOWA L. REV. 245, 254–57 (2017) (discussing issues of causation in patent damages).

Similarly, in the instant case, the damages in dispute are not for lost profits from the sale of the patented invention. Instead, they are for "lost profits resulting from its failure to win foreign service contracts." *WesternGeco L.L.C. v. ION Geophysical Corp.*, 791 F.3d 1340, 1351 (Fed. Cir. 2015), *cert. granted, judgment vacated*, 136 S. Ct. 2486 (2016), *opinion reinstated WesternGeco L.L.C. v. ION Geophysical Corp.*, 837 F.3d 1358, 1360 (Fed. Cir. 2016), *cert. granted*, No. 16-1011, 2018 WL 386561 (U.S. Jan. 12, 2018). The analysis here might be different if the lost profits sought were foregone sales of the patented invention. But here, the damages sought are for a more remote harm. Courts should consider this remoteness in their proximate cause analysis.

Relevant, then, to the proximate cause analysis should be the territorial location of the harm. Just as

the presumption can be used to inform a court's analysis of a statute, even one with extraterritorial reach, the Court should make clear that territoriality is also relevant in a proximate cause analysis. Territorial limits may not provide a bright-line proscription on all damages arising from activities outside of the United States, but such limits should inform how proximate a particular harm is to the domestic act of infringement. This dynamic is particularly important when the damages sought are already one step removed from an award of lost profits simply for lost sales of the patented invention.

CONCLUSION

This Court has yet to squarely address whether the presumption against extraterritoriality applies separately to remedial provisions in a statute. The answer to this question is important and transcends patent law. The Court should hold that the presumption does apply separately to remedies, and that the presumption is rebutted here.

That should not be the end of the inquiry, however. A court should explicitly consider issues of comity and conflicts with the law of the implicated foreign jurisdiction. The Court should reconcile its patent jurisprudence with that of the Lanham Act and embrace the formal consideration of conflicts with foreign law. Such consideration strikes a more appropriate balance between protecting U.S. patent owners and respecting the sovereignty of foreign countries. Here, the infringement took place on the high seas, seemingly a "patent-free" zone, but this Court should require confirmation of that fact by the

district court or court of appeals. Additionally, the Court should ensure that concerns of extraterritoriality are considered in analyzing the foreseeability of the infringement damages sought in this case.

Respectfully submitted,

TIMOTHY R. HOLBROOK
Counsel of Record
Emory University
School of Law
1301 Clifton Road
Atlanta, Georgia 30322
tholbrook@emory.edu
(404) 712-0353

SARAH M. SHALF
Emory Law School
Supreme Court
Advocacy Program
1301 Clifton Road
Atlanta, Georgia 30322
sshalf@emory.edu
(404)712-4652

Counsel for Amici Curiae

APPENDIX

APPENDIX – LIST OF SIGNATORIES

Ann Bartow
Professor of Law
Director, Franklin Pierce Center
for Intellectual Property
University of New Hampshire School of Law

Dan L. Burk
Chancellor's Professor of Law
University of California, Irvine School of Law

Donald P. Harris
Professor of Law
Temple University Beasley School of Law

Timothy R. Holbrook
Asa Griggs Candler Professor of Law
Emory University School of Law

David Hricik
Professor of Law
Mercer University School of Law

Amy Landers
Director of the Intellectual Property Law Program
Professor of Law
Drexel University Thomas R. Kline School of Law

Yvette Joy Liebesman
Professor of Law
Saint Louis University School of Law

Lee Ann W. Lockridge
Professor of Law
Louisiana State University Law Center

Jason Rantanen
Professor of Law and
Ferguson-Carlson Fellow in Law
Director, Innovation, Business & Law Program
University of Iowa College of Law

No. 16-1011

IN THE

Supreme Court of the United States

WESTERNGECO LLC,
Petitioner,

v.

ION GEOPHYSICAL CORPORATION,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE* INTELLECTUAL PROPERTY OWNERS ASSOCIATION IN SUPPORT OF NEITHER PARTY

HENRY HADAD, *President*
STEVEN W. MILLER, *Chair, Amicus Brief Committee*
MARK W. LAUROESCH, *Executive Director*
INTELLECTUAL PROPERTY OWNERS ASSOCIATION
1501 M Street, NW
Suite 1150
Washington, D.C. 20005
(202) 507-4500

D. BARTLEY EPPENAUER
Counsel of Record
PATRICK A. LUJIN
KYLE E. FRIESEN
CRAIG M. EDGAR
SHOOK, HARDY & BACON, L.L.P
701 Fifth Avenue
Suite 6800
Seattle, Washington 98104
(206) 344-7600

Counsel for Amicus Curiae Intellectual Property Owners Association

MARCH 5, 2018

TABLE OF CONTENTS

TABLE OF CONTENTS i
TABLE OF AUTHORITIES iii
INTEREST OF AMICUS CURIAE 1
INTRODUCTION & STATEMENT 2
SUMMARY OF ARGUMENT 4
ARGUMENT 6
I. Lost Profits May Be Recovered for Infringement Under 35 U.S.C. § 271(f), Including Foreign Lost Profits, When the Patentee Proves the Acts of Domestic Infringement Caused the Foreign Lost Profits 6
A. Section 284 Embodies the Longstanding Principle of Full Compensation for an Injury Caused by Unlawful Conduct 6
B. Construing § 284 to Categorically Exclude Lost Foreign Profits Undermines the Policy Established by § 271(f) 10
1. Section 271(f) was Enacted to Extend Patent Protection Covering United States Exports 10
2. The Federal Circuit's Ruling Has Singular Impact Where Patented Inventions Are Used on the High Seas 13

II. The Federal Circuit Erred by Applying an Unduly Rigid Rule Barring Recovery of Lost Profits Resulting from Infringement Under 35 U.S.C. § 271(f) on the Sole Basis That Extraterritorial Activity Is Involved 16

A. Correct Application of the Court's Precedent Permits the Use of International Activity to Show Damages from Infringement Under § 271(f) 16

B. The Federal Circuit Arrived at Its Erroneous Decision Using Flawed Logic and by Ignoring Binding Precedent 21

CONCLUSION 26

TABLE OF AUTHORITIES

Page(s)

Cases

Am. Seating Co. v. USSC Grp., Inc.,
514 F.3d 1262 (Fed. Cir. 2008) 8

Aro Mfg. Co. v. Convertible Top Replacement Co. (Aro II),
377 U.S. 476 (1964) 7

Beatrice Foods Co. v. New England Printing & Lithography Co.,
899 F.2d 1171 (Fed. Cir. 1990) 8

Brown v. Duchesne,
60 U.S. 183 (1856) 23, 24

Carbice Corp. of Am. v. Am. Patents Dev. Corp.,
283 U.S. 27 (1931) 7

Deepsouth Packing Co., Inc. v. Laitram Corp.,
406 U.S. 518 (1972) ..... *passim*

General Motors Corp. v. Devex Corp.,
461 U.S. 648 (1983) 7, 19

Hampton by Hampton v. Fed. Express Corp.,
917 F.2d 1119 (8th Cir. 1990) 8

King Instruments Corp. v. Perego,
65 F.3d 941 (Fed. Cir. 1995)..... 19

Kiobel v. Royal Dutch Petroleum Co.,
569 U.S. 108 (2013)..... 14

Life Techs. Corp. v. Promega Corp.,
137 S. Ct. 734 (2017)..... 3, 4

Mentor Graphics Corp. v. EVE-USA, Inc.,
851 F.3d 1275 (Fed. Cir. 2017)..... 7

Microsoft Corp. v. AT&T Corp.,
550 U.S. 437 (2007).....*passim*

Morrison v. Nat'l Australia Bank Ltd..
561 U.S. 247 (2010).....*passim*

Panduit Corp. v. Stahlin Bros. Fibre Works,
575 F.2d 1152 (6th Cir. 1978) 19

Parden v. Terminal R. Co. of Ala. Docks Dept.,
377 U.S. 184 (1964)..... 12

Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.,
711 F.3d 1348 (Fed. Cir. 2013).....21, 22, 23

Rite-Hite Corp. v. Kelley Co., Inc.,
56 F.3d 1538 (Fed. Cir. 1995) (*en banc*) 8, 19

RJR Nabisco, Inc. v. European Cmty.,
136 S. Ct. 2090 (2016) ..... *passim*

TWM Mfg. Co., Inc. v. Dura Corp.,
789 F.2d 895 (Fed. Cir. 1986) 8

Von Hoffman v. City of Quincy,
71 U.S. 535 (1867) 12

W.R. Grace & Co.—Conn. v. Intercat, Inc.,
60 F. Supp. 2d 316 (D. Del. 1999) 8

WesternGeco LLC v. ION Geophysical Corp. (*WesternGeco I*),
791 F.3d 1340 (Fed. Cir. 2015) ..... *passim*

Yale Lock Mfg. Co. v. Sargent,
117 U.S. 536 (1886) 6, 8

Statutes

35 U.S.C. § 104 (2006) 20

35 U.S.C. § 119(a) 20

35 U.S.C. § 154 19

35 U.S.C. § 261 20

35 U.S.C. § 271 19

35 U.S.C. § 271(f) ..... *passim*

35 U.S.C. § 284 ..... *passim*

35 U.S.C. § 293 20

Other Authorities

Anna Possner & Ken Caldeira, *Geophysical Potential for Wind Energy Over the Open Oceans*, 114 PROC. NATL. ACAD. SCI. USA 11338 (2017) 14

H. R. Rep. No. 1587, 79th Cong., 2d Sess. (1946) 7

James J. Anton & Dennis A. Yao, *Finding "Lost" Profits: An Equilibrium Analysis of Patent Infringement Damages*, 23 J.L., ECON., & ORGANIZ. 186 (2006) 12

National Marine Fisheries Service, *High Tech on the High Seas* (2017), https://www.fisheries.noaa.gov/feature-story/high-tech-high-seas (last visited Feb. 27, 2018) 14

Organisation for Economic Co-operation and Development (OECD), *Trade in Value Added, Origin of Value Added in Gross Exports*, https://data.oecd.org/trade/domestic-value-added-in-gross-exports.htm (last visited Feb. 16, 2018) 11

Paul Gilbert, Alice Bows-Larkin, Sarah Mander & Conor Walsh, *Technologies for the High Seas: Meeting the Climate Challenge*, 5 CARBON MANAGEMENT 447 (2015) 14

PRNewswire, ION Announces Ruling in Appeal on WesternGeco Patent Infringement Lawsuit (July 2, 2015), https://www.prnewswire.com/news-releases/ion-announces-ruling-in-appeal-on-westerngeco-patent-infringement-lawsuit-300108472.html 13

Roger D. Blair & Thomas F. Cotter, *Rethinking Patent Damages*, 10 TEX. INTELL. PROP. L.J. 1, 22 (2001) 7

Section-by-Section Analysis: Patent Law Amendments of 1984, 130 Cong. Rec. H 10522 (1984) 2, 10

S. Rep. No. 1503, 79th Cong., 2d Sess. (1946)..... 7

S. Rep. 98-663, 98th Cong., 2d Sess. (1984).....2, 10, 12

United States Census Bureau & United States Bureau of Economic Analysis, *U.S. Internationall Trade in Goods and Services*, CB 18-15, BEA 18-06 (Feb. 6, 2018)..... 11

INTEREST OF AMICUS CURIAE

Amicus curiae Intellectual Property Owners Association (IPO)[1] represents many of the most innovative companies in America. IPO's roughly 200 corporate members develop, manufacture, and sell technology-based products in a wide range of industries. Further, IPO is committed to serving the interests of all intellectual property owners in all industries and all fields of technology. Founded in 1972, IPO represents the interests of its members before Congress and the United States Patent and Trademark Office (USPTO) and has filed *amicus curiae* briefs in this Court and other courts on significant issues of intellectual property law. The members of IPO's Board of Directors, which approved the filing of this brief, are listed in the Appendix.[2]

---

[1] Pursuant to Rule 37.6, *amicus* affirms that no counsel for a party authored this brief in whole or in part, nor has any counsel, party, or third person other than *amicus* or its counsel made any monetary contribution intended to fund the preparation or submission of this brief. Pursuant to Rule 37.3, the parties consented to the filing of this brief through blanket consent letters.

[2] IPO procedures require approval of positions in briefs by a two-thirds majority of directors present and voting.

INTRODUCTION & STATEMENT

The issue before the Court is:

> Whether the court of appeals erred in holding that lost profits shown to be caused by infringement under 35 U.S.C. § 271(f) are categorically unavailable where they arise from extraterritorial conduct.

The history of § 271(f) is closely entwined with this Court's jurisprudence regarding the extraterritorial effect of the country's patent laws. Section 271(f) was added to the infringement statute by the Patent Law Amendments Act of 1984 in direct response to this Court's decision in *Deepsouth Packing Co., Inc. v. Laitram Corp.*, 406 U.S. 518 (1972). *See* Section-by-Section Analysis: Patent Law Amendments of 1984, 130 Cong. Rec. H 10522, 10525 (1984) ("This proposal [to add § 271(f)] responds to the United States Supreme Court decision in *Deepsouth* . . ., concerning the need for a legislative solution to close a loophole in patent law."); S. Rep. 98-663, 98th Cong., 2d Sess. at 2-3 (1984) (expressing the need for a response to *Deepsouth*); *accord Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 444, n.3 (2007) (acknowledging the Congressional purpose for enacting § 271(f)).

The Court held in *Deepsouth* that manufacturing the unassembled components of a patented invention in the United States did not infringe under § 271(a) because the components were exported before being combined into the invention patented. 406 U.S. at 528-29. The Court noted then that, "what is at stake here is the right of American companies to compete with an American patent holder in foreign markets." *Id.* at 531. And, although it did not speak in terms of a presumption, the Court did "insist on a *clear congressional indication* of intent to extend the patent privilege before we could recognize the monopoly here claimed." *Id.* at 532 (emphasis added).

Since its enactment, the Court has twice construed § 271(f). *See Life Techs. Corp. v. Promega Corp.*, 137 S. Ct. 734, 739 (2017) (addressing whether "a substantial portion," as used in § 271(f)(2) "refers to a quantitative or qualitative measurement); *Microsoft*, 550 U.S. at 447 (addressing whether the software at issue was a "component" and "supplied . . . from the United States," as required by both parts of § 271(f)). In *Microsoft*, the Court expressly "[r]ecogniz[ed] that § 271(f) is an exception to the general rule that our patent law does not apply extraterritorially," but declined to construe it "expansively." 550 U.S. at 442. The presumption against extraterritoriality was cited as support for the Court's narrow construction of the statute, but was relied upon only to "resolve" "[a]ny doubt." *Id.* at 454-55. In its more

recent *Life Technologies* decision, the Court again addressed the scope of § 271(f) but did not resort to (or even mention) the presumption against extraterritoriality. *See generally* 137 S. Ct. 734.

This Court has recognized that § 271(f) is an exception to the general territorial limits of United States patent law, enacted by Congress to reverse the decision in *Deepsouth* that denied patent owners any protection against competition "in foreign markets." *Microsoft*, 550 U.S. at 441, 444; *Deepsouth*, 406 U.S. at 531. This Court is now faced with deciding whether to undermine the protection Congress intended by curtailing the remedies available under 35 U.S.C. § 284 for the infringing acts prohibited by § 271(f).

SUMMARY OF ARGUMENT

The purpose of § 284 is to fully compensate patentees for the infringement of their patents, including for infringement defined by § 271(f). The text and history of § 271(f) evidences a clear congressional intent to provide protection for patentees competing in foreign markets, and providing such protection requires a remedy for injuries suffered in those markets. This protection is important to exporting manufacturers, whose business represents a large segment of the United States economy. Construing § 284 as *per se* barring compensation for the lost profits from foreign sales frustrates the congressional intent behind § 271(f)

and diminishes the incentive for innovation offered by patent protection.

Moreover, this case is emblematic of particular kinds of technology that are peculiarly at risk of losing meaningful patent protection: technologies intended for use on the high seas. Because the high seas are outside the jurisdiction of every country, infringement of patents on high-seas technologies are uniquely likely to generate damages based on extraterritorial effects. The owners of these patents are as entitled to full compensation as any other patentees.

The Federal Circuit misapplied the presumption against extraterritoriality in this case by categorically barring lost profits under § 284 solely on the basis that some foreign activity was used to prove the injury to the patent owner. This case can be decided at the first step of the analytical framework applied in *Morrison v. Australian National Bank Ltd.* and *RJR Nabisco, Inc. v. European Community*. Section 284 has extraterritorial scope when infringement under § 271(f) is established. Even if § 284 did not have extraterritorial scope, an award of lost foreign profits would be a permissible *domestic* application of the statute where that award compensates a patentee for a *domestic* act of infringement.

The Federal Circuit's error appears to arise from a misapplication of precedent precluding *liability* for

extraterritorial acts that would infringe a patent if they occurred in the United States. Allowing extraterritorial acts to establish injuries caused by domestic infringement does not require imposing liability for those extraterritorial acts. Keeping that distinction allows patent owners to be fully compensated for infringement under § 271(f), as Congress provided in § 284, without making the whole world subject to United States patent law.

ARGUMENT

I. Lost Profits May Be Recovered for Infringement Under 35 U.S.C. § 271(f), Including Foreign Lost Profits, When the Patentee Proves the Acts of Domestic Infringement Caused the Foreign Lost Profits

A. Section 284 Embodies the Longstanding Principle of Full Compensation for an Injury Caused by Unlawful Conduct

A patentee who establishes infringement is entitled to "damages *adequate to compensate* for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. § 284 (emphasis added). The principle of compensation has long been central to the determination of patent damages, even before the current statute. *See Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 552-53 (1886) ("[T]he

difference between [the patentee's] pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred . . . is a proper measure of damages."). And "Congress' overriding purpose" in enacting the statute that became § 284 was to "afford[] patent owners *complete compensation*," limited only by what they can prove. *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655 (1983) (italics added); *see* H. R. Rep. No. 1587, 79th Cong., 2d Sess. (1946), at 1 ("The object [of the enacted language] is to make the basis of recovery in patent-infringement suits general damages, that is, any damages the complainant can prove."); S. Rep. No. 1503, 79th Cong., 2d Sess., at 2 (1946) (same).

Of course, a patent owner's legal right to compensation is not without limit. Patent infringement "is essentially a tort." *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 33 (1931); *see also Aro Mfg. Co. v. Convertible Top Replacement Co.* (*Aro II*), 377 U.S. 476, 500 (1964) ("[A] contributory infringer is a species of joint-tortfeasor, . . ."). As such, courts apply tort principles when determining which injuries are compensable. *See Aro II*, 377 U.S. at 501 (applying tort principles governing releases of joint tortfeasors in contributory infringement context); Roger D. Blair & Thomas F. Cotter, *Rethinking Patent Damages*, 10 TEX. INTELL. PROP. L.J. 1, 22 (2001) (describing a gradual incorporation of tort principles into patent damages law); *see also Mentor Graphics Corp. v.*

EVE-USA, Inc., 851 F.3d 1275, 1285 (Fed. Cir. 2017) ("In [their compensatory purpose], lost profit patent damages are no different than . . . general tort damages."). *Compare Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1546 (Fed. Cir. 1995) (*en banc*) (limiting damages for patent infringement to those that are "reasonably foreseeable") *with, e.g., Hampton by Hampton v. Fed. Express Corp.*, 917 F.2d 1119, 1125 (8th Cir. 1990) (denying carrier's liability where cancer patient's death was not a reasonably foreseeable consequence of losing a package containing patient's blood samples).

Applying these principles, courts have found a wide range of injuries compensable under § 284, including: (a) harms resulting from the lost sales of patentees' own products (whether practicing the patent or not) that compete with infringing products, *e.g., Yale Lock Mfg.*, 117 U.S. at 552 (patentee marketed patented product) *Rite-Hite Corp.*, 56 F.3d at 1548-49 (patentee marketed patented and unpatented products); (b) from price erosion due to patentees' loss of their legal monopoly, *e.g., Yale Lock Mfg.*, 117 U.S. at 553; *TWM Mfg. Co., Inc. v. Dura Corp.*, 789 F.2d 895, 902 (Fed. Cir. 1986); *W.R. Grace & Co.—Conn. v. Intercat, Inc.*, 60 F. Supp. 2d 316, 327, 332 (D. Del. 1999); and (c) from the lost sales of convoyed goods, *e.g., Beatrice Foods Co. v. New England Printing & Lithography Co.*, 899 F.2d 1171, 1175 (Fed. Cir. 1990); *see also Am. Seating Co. v. USSC Grp., Inc.*, 514 F.3d 1262, 1268 (Fed. Cir. 2008) (recognizing lost profits on convoyed sales are

recoverable). Thus, a patent owner is generally entitled to compensation for an injury proven to be the foreseeable result of a defendant's established infringement.

The language and history of §§ 271(f) and 284 suggest that the full compensation owed to a patentee on the facts presented here should not be denied solely because some of the activity in the chain of causation occurred overseas. As discussed below, § 271(f) has been recognized as having extraterritorial effect. *Microsoft*, 550 U.S. at 441. And § 284 affords full compensation for "infringement" under § 271(f). Where the provision defining infringement has extraterritorial scope, as it does here, it is to be expected that some of the activity leading to the compensable harm will occur outside the United States. Indeed, both parts of § 271(f) anticipate that the components unlawfully supplied "in or from the United States" will be combined "outside the United States" to make the patented invention. Even this conduct would be encompassed by the Federal Circuit's expansive rule that any "'entirely extraterritorial *production*, use, or sale of [the patented] invention . . . cuts off the chain of causation'" between the infringement and the harm. *WesternGeco LLC v. ION Geophysical Corp.* (*WesternGeco I*), 791 F.3d 1340, 1351 (Fed. Cir. 2015) (italics added) (quoting *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013)). The statutes at issue here

cannot support a bright line rule as expansive as the one applied by the Federal Circuit.

B. Construing § 284 to Categorically Exclude Lost Foreign Profits Undermines the Policy Established by § 271(f)

1. Section 271(f) Was Enacted to Extend Patent Protection Covering United States Exports

Congress enacted § 271(f) to close what it considered a "loophole" in the infringement statute, which the Court identified in *Deepsouth*. Section-by-Section Analysis: Patent Law Amendments of 1984, 130 Cong. Rec. at H 10525. In doing so, Congress sought to ensure that the patent protection afforded exporting manufacturers was meaningful and could not be circumvented as it was in *Deepsouth*. *See id.* at H 10529 (describing proposed § 271(f) as preventing the avoidance of patent protection); S. Rep. 98-663 at 2-3 (expressing the need for a response to *Deepsouth*). Section 271(f) therefore reflects a policy that "maintaining a climate . . . conducive to invention, innovation, and investment" requires that patents protect United States exporters from competition in markets abroad, protection which earlier-enacted legislation had failed to secure. S. Rep. 98-662 at 3; *see Deepsouth*, 406 U.S. at 531 (interpreting then-existing patent

law as requiring inventors to seek foreign patents to obtain any protection in non-U.S. markets).

This policy implicates a substantial segment of the United States economy. The total value of exported goods in the United States during 2017 was just over $1.5 trillion. United States Census Bureau & United States Bureau of Economic Analysis, *U.S. International Trade in Goods and Services*, CB 18-15, BEA 18-06, at 3 (Feb. 6, 2018). Most of that value comes from manufactured goods as opposed to raw materials. Goods classified as "Capital goods" (*e.g.*, semiconductors and aircraft) and "Automotive" account for roughly 45% of the total value, close to $700 billion, of the goods exported. *Id.* at Ex. 7. "Consumer goods," which includes manufactured goods both technological (*e.g.*, cell phones and pharmaceuticals) and not (*e.g.*, books), contributes roughly $200 billion more to the total export of goods. *Id.* All told, the export of manufactured goods accounts for hundreds of billions of dollars of the United States' economy every year, and a large percentage of the value of these goods was added domestically in the United States. *See* Organisation for Economic Co-operation and Development (OECD), *Trade in Value Added, Origin of Value Added in Gross Exports*, https://data.oecd.org/trade/domestic-value-added-in-gross-exports.htm (last visited Feb. 16, 2018) (85% of the value of U.S. exports in 2014 was added domestically). These exported products are often the result of substantial investment in research and development by the

companies that make them, and it was this investment Congress sought to encourage when it added § 271(f) to the nation's patent laws. *See, e.g.*, S. Rep. 98-663 at 3.

Categorically prohibiting recovery of lost profits damages for patentees whose patents are infringed under § 271(f) undermines the sound policy set forth by Congress. Patent protection is granted by the United States as an incentive to encourage investment and innovation in technology, which is critical to the health of the United States economy and the progress of science. The remedies available to injured patentees, including lost profits damages, are a fundamental part of that protection. "A right without a remedy . . . may be said not to exist." *Von Hoffman v. City of Quincy*, 71 U.S. 535, 554 (1867); *see also Parden v. Terminal R. Co. of Ala. Docks Dept.*, 377 U.S. 184, 190 (1964) (rejecting a statutory construction that would have the "pointless and frustrating" result of providing "a right without a remedy").

Although the Federal Circuit's holding did not deprive the petitioner in this case of *all* remedy, the consequence of the *per se* rule created by the decision below is to deny an *effective* remedy and therefore to undermine the incentives for innovation Congress created. *See* James J. Anton & Dennis A. Yao, *Finding "Lost" Profits: An Equilibrium Analysis of Patent Infringement Damages*, 23 J.L., ECON., & ORGANIZ. 186, 186 (2006) ("Because it is common for

litigation to conclude after an infringer has been in the market for some time, expected damages play an important role in establishing incentives for innovation."). Seen differently, the availability of lost profits not only compensates the patentee but discourages infringement. The behavior of the litigants in this case confirms the importance of an effective remedy. Respondent ION reacted to the Federal Circuit's decision sparing it roughly 90% of the damages awarded by the jury by proclaiming a "complete victory," even though it was still obligated to pay $11 million in damages. PRNewswire, ION Announces Ruling in Appeal on WesternGeco Patent Infringement Lawsuit (July 2, 2015), https://www.prnewswire.com/news-releases/ion-announces-ruling-in-appeal-on-westerngeco-patent-infringement-lawsuit-300108472.html.

2. The Federal Circuit's Ruling Has Singular Impact Where Patented Inventions Are Used on the High Seas

By construing § 284 to incorporate a *per se* rule against considering extraterritorial activity when determining lost profits damages for infringement under § 271(f), the Federal Circuit undermines the manifest purpose of § 271(f). This is never truer than in cases, like this one, where the profitable use of the patented invention at issue will occur only on the high seas. Under the Federal Circuit's approach, patents for such inventions are substantially devalued. No matter how many countries grant

patents for such an invention, a patentee could never recover damages to compensate for the profits lost to infringers on the high seas. As with other forms of piracy occurring on the high seas, the presumption against extraterritoriality should not preclude redress here. *Cf. Kiobel v. Royal Dutch Petroleum Co.*, 569 U.S. 108, 121 (2013) (recognizing a distinction between acts occurring on the high seas, subject to no country's jurisdiction, and acts within a foreign nation when applying the presumption against extraterritoriality to the Alien Tort Statute).

Numerous innovative technologies are being and have been developed for use on the high seas, not limited to the field of offshore exploration and production of oil and gas resources. For example, researchers are developing technology for reducing greenhouse gas emissions from ocean-going vessels. Paul Gilbert, Alice Bows-Larkin, Sarah Mander & Conor Walsh, *Technologies for the High Seas: Meeting the Climate Challenge*, 5 CARBON MANAGEMENT 447 (2015). Passive acoustic listening stations embedded on the sea floor gather information about sea mammals. National Marine Fisheries Service, *High Tech on the High Seas* (2017), https://www.fisheries.noaa.gov/feature-story/high-tech-high-seas (last visited Feb. 27, 2018). And new research shows that offshore wind turbines generate more power than those located in land-based wind farms. Anna Possner & Ken Caldeira, *Geophysical Potential for Wind Energy*

Over the Open Oceans, 114 PROC. NATL. ACAD. SCI. USA 11338, 11338 (2017).

These developments, like others that have come before, may result in patent-worthy inventions that are entitled to protection under U.S. law. Indeed, a search for United States patents and published patent applications filed within the past 20 years revealed 937 patents and applications with "high seas" and 7,604 with "deep water" in the text. Thus, there may be hundreds if not thousands of patents that could be denied most of their practical value where the infringing activity occurs, as was intended, in international waters. Devaluing these patents only disincentivizes investment in high-seas technologies, exempting many fields of endeavor from the encouragement offered by the patent system.

Congress has not withheld the advantages of patent protection based on the field of technology. Nor did Congress carve out patents on high-seas technologies from those that deserve "damages adequate to compensate for the infringement" under § 284.

II. The Federal Circuit Erred by Applying an Unduly Rigid Rule Barring Recovery of Lost Profits Resulting from Infringement Under 35 U.S.C. § 271(f) on the Sole Basis That Extraterritorial Activity Is Involved

As established above, the language of § 284 neither suggests nor supports a *per se* rule prohibiting compensation for the loss of profits from overseas activity, but the Federal Circuit imposed such a rule on the statute based on the presumption against extraterritoriality. *WesternGeco I*, 791 F.3d at 1349-51. The Federal Circuit erred, however, because the presumption does not require so rigid a rule be read into the statute. This is particularly true for infringement under § 271(f).

A. Correct Application of the Court's Precedent Permits the Use of International Activity to Show Lost Profits Damages from Infringement Under § 271(f)

Although it is presumed that Congress does not intend legislation to apply outside the United States, this presumption is rebutted when Congress gives a clear indication to the contrary. *See Morrison v. Nat'l Australia Bank Ltd.*, 561 U.S. 247, 255 (2010) (recognizing that the presumption is "a canon of construction" that applies in the absence of "a contrary intent" (internal citations and quotation marks omitted)); *Microsoft*, 550 U.S. at 444-45

(recognizing § 271(f) as a response to *Deepsouth*, which insisted on "a clear congressional indication of intent" (internal citations and quotation marks omitted)).

Applying the presumption against extraterritoriality to a statute is a two-step process. *RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090, 2101 (2016). The first step is straightforward; if the statute provides a "clear, affirmative indication that it applies extraterritorially," the presumption is rebutted and the analysis ends. *Id.* Even if the presumption is not rebutted, a statute may apply in cases where some conduct occurred abroad, so long as "the conduct relevant to the statute's focus occurred in the United States." *Id.*

Were the Court to focus only on § 271(f), the *RJR Nabisco* analysis would stop after the first step; § 271(f) has extraterritorial scope. *Microsoft*, 550 U.S. at 441. The text confirms this; § 271(f) bars the supply (with the requisite mental state) of certain components for use in combinations "that would infringe the patent if such combination occurred within the United States." 35 U.S.C. § 271(f)(1)–(2). Thus, the statute expressly concerns combinations that do *not* occur within the United States.

Of course, the question in this case pertains to the scope of § 284, but the analysis is not significantly more involved. As noted above, § 284 entitles a patentee to compensation for

infringement, but it is § 271(f) that provides the needed definition of infringement in this case. Because it incorporates a statute that has extraterritorial scope, § 284 likewise has extraterritorial applications, at least for infringement under § 271(f). *See RJR Nabisco*, 136 S. Ct. at 2102 ("Congress's incorporation of . . . extraterritorial predicates into RICO gives a clear, affirmative indication" of extraterritorial application). Hence, the presumption against extraterritoriality does not operate as an independent limitation on damages in this case.[3]

Even if the *RJR Nabisco* analysis progresses to the second step, this Court's precedent precludes a *per se* rule, like the one adopted below, that extraterritorial activity cuts off the chain of causation. Statutes without extraterritorial scope may nevertheless apply to a course of conduct that is partly extraterritorial, so long as the activity that is the "focus" of the statute occurred domestically. *See RJR Nabisco*, 136 S. Ct. at 2101; *see also Morrison*, 561 U.S. at 266-67 (relying on the transactions that were the "focus" of the statute to determine whether an application was domestic).

---

[3] It should be noted that the question presented to this Court pertains to extraterritoriality, and amicus IPO's brief limits itself to this issue and does not address other doctrines that might have been raised with respect to causation in this case.

As relevant to this case, the focus of § 284 is on compensation for "infringement."[4] Section 284 does not focus on the nature of the injuries for which compensation is due; the focus is on their cause. *See General Motors*, 461 U.S. at 655-56, n.10 (construing § 284 as requiring prejudgment interest be awarded, despite the silence of the statute, to effect statutory purpose of compensation). Nor does the statute dictate particular activity that must be shown to prove causation. *See King Instruments Corp. v. Perego*, 65 F.3d 941, 951 (Fed. Cir. 1995) ("Requiring exploitation of the claimed invention for a recovery of lost profits would cause a systematic failure to award 'damages adequate to compensate for the infringement' in cases where the patent holder could otherwise prove causation."). *Compare Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152, 1156 (6th Cir. 1978) (listing, without discussion of § 284, four factors "a patent owner *must prove*" to obtain lost profits (italics added)) *with Rite-Hite*, 56 F.3d at 1544-45 (analyzing the Court's guidance in *General Motors* and *Aro II* regarding § 284 and concluding the *Panduit* factors were "useful, but non-exclusive").

---

[4] Section 284 also mentions the "use made of the invention by the infringer" when discussing the statutory minimum for patent damages—a reasonable royalty—but the damages at issue in this appeal were based on WesternGeco's lost profits, as found by the jury.

The structure of the patent system further confirms that the focus of § 284 for the *RJR Nabisco* analysis is on the prohibited acts of infringement, rather than the location of the injury or the activity that might evidence the injury. Patents grant a right to exclude others from using the patented invention, and liability is attached to prohibited acts within the United States. 35 U.S.C. §§ 154, 271.

Despite the territorial nature of these rights, Congress clearly intended that foreign inventors and companies would benefit from the patent system in much the same way United States citizens and residents do. A patented invention could have been first made and patented abroad. *See* 35 U.S.C. § 104 (2006) (imposing limits on foreign activity that could be used to establish a date of invention) (repealed 2011); 35 U.S.C. § 119(a) (providing for U.S. patent applications to claim priority to earlier filed foreign patent applications). And Congress anticipated that the owner of a patent might not be present in the United States. *See* 35 U.S.C. § 293 (providing for jurisdiction in cases where the patentee does not reside in and has no designated agent in the United States); *see also* 35 U.S.C. § 261 (permitting foreign authorities to certify assignments of U.S. patents).

It is implicit in this structure that there will be cases in which a foreign entity—one that may not have a domestic presence—is injured by a competitor supplying components from the United States in violation of § 271(f). Those components

may even be supplied for combination in the foreign entity's home country. Arguably, the injury in such a case would be entirely outside the United States, yet the patent laws provide a claim for infringement because activity that violates § 271(f) occurs domestically. *Cf. Morrison*, 561 U.S. at 267 n.9 (explaining that a domestic application of the statute at issue will still encompass some "transnational frauds").

Because the statutory focus is on the infringement for which compensation is due, the extraterritoriality of the injury or the activity used to prove the injury does not affect whether an award of damages in a given case constitutes a permissible, domestic application of § 284.

B. The Federal Circuit Arrived at Its Erroneous Decision Using Flawed Logic and by Ignoring Binding Precedent

The Federal Circuit erred by ignoring this Court's precedent, by misapplying the authorities it did consider, and by conflating liability with causation. Each of these errors undermines the persuasive weight to be given the Federal Circuit's decision in this case.

First, the Federal Circuit did not engage in the two-step analysis called for by *Morrison* and *RJR Nabisco*. As shown above, an application of that analysis to § 284 and § 271(f) shows that § 284 has

extraterritorial reach in this case or, at least, that the damages in this case result from permissible domestic application.

Rather than turning to this Court's most recent guidance, the Federal Circuit relied heavily on certain language in its own decision from *Power Integrations, Inc. v. Fairchild Semiconductor International, Inc.*. *See WesternGeco I*, 791 F.3d at 1350-51 (discussing *Power Integrations*, 711 F.3d 1348 (Fed. Cir. 2013)). The facts in *Power Integrations*, however, were markedly different from the ones that obtain here. First, the patentee in *Power Integrations* did not claim infringement under § 271(f). *See Power Integrations*, 711 F.3d at 1371-72 (discussing the patentee's theories of infringement and causation). Unlike direct infringement under § 271(a), § 271(f) concerns itself with the export of components of the patented invention bound for foreign markets. *See Microsoft*, 550 U.S. at 444-45.

Perhaps more importantly, the patentee in *Power Integrations* failed to show that its foreign lost profits were compensable because it failed to prove an adequate connection to the infringing activity in the United States, not because all foreign lost profits are prohibited by law. *See Power Integrations*, 711 F.3d at 1372 (finding "neither compelling facts nor a reasonable justification" for awarding "damages based on loss of sales in foreign markets"); *see also id.* at 1371 ("Power Integrations has not cited any case law that supports an award of damages for

sales consummated in foreign markets, *regardless of any connection to infringing activity in the United States*." (emphasis added)). The patentee argued that it was entitled to world-wide damages as long as it "established *one* or more acts of direct infringement in the United States." *Id.*

In its decision below in this case, the Federal Circuit acknowledged the weak theory presented in *Power Integrations*:

> There, the patentee, a chip supplier, lost contracts . . . abroad because the accused infringer became a competitor for such contracts as a result of the U.S. infringing sales. . . . The patentee argued that it should recover world-wide lost profits.

WesternGeco I, 791 F.3d at 1350. There was no argument in *Power Integrations* that the particular units of the patented invention that were manufactured in the United States in violation of the patent were subsequently sold or used abroad. *See generally* 711 F.3d 1348. Accordingly, the Federal Circuit, in *Power Integrations*, did not attempt to justify a *per se* rule against damages based on foreign sales in all cases. *See id.* at 1371.

In *WesternGeco I*, the Federal Circuit likewise fails to provide any logical or persuasive reasoning to justify the *per se* rule it announced. Instead, the court below relied on broad pronouncements from

Power Integrations and this Court's decision in *Brown v. Duchesne*, 60 U.S. (19 How.) 183 (1856), which when taken out of context seem to dictate the holding below. But, as shown above, *Power Integrations* does not support the Federal Circuit's decision. Neither does *Duchesne*.

In *Duchesne*, this Court declined to find any infringement of a United States patent on an improved gaff for use on sailing vessels when a French vessel, built in France and manned by a French crew, entered Boston harbor. 60 U.S. at 193. This decision, however, was based on the principle that Congress could not impose the full impact of our national patent system against a foreign vessel during the short period during its international voyage while docked at a U.S. port or sailing within United States jurisdictional boundaries without "embarrass[ing] our commerce and intercourse with foreign nations, or endanger[ing] our amicable relations." *Id.* at 198. Awarding compensation in the present case does not raise Treaty Clause and international relations concerns because domestic infringement under § 271(f) has been established. Indeed, the *Duchesne* Court specifically noted the outcome would have been different if the patented invention "had been manufactured on [the ship's] deck while she was lying in the port of Boston." *Id.* at 196. If that were the case, the patentee would have been entitled to complete compensation. *Id.* Likewise, the infringer here is "justly answerable" to the patentee, even though the "chief and almost only

advantage" derived from the invention "was on the high seas, and in other places out of the jurisdiction of the United States." *Id.*

The Federal Circuit erroneously concluded that these and similar authorities barred foreign-based damages because the court conflated proof of damages with liability. *See WesternGeco I*, 791 F.3d at 1351 ("[T]he United States exporter of the component parts cannot be liable for use of the infringing article abroad."). The defendant, ION, was not found liable for anything other than its infringing conduct, the supply of components in violation of § 271(f). Conversely, ION's customers, who won those contracts, are not defendants in the case and have not been found liable of infringement at all. The question at issue is whether the infringing conduct caused compensable harm in the form of lost services contracts. Conflating liability with causation led the Federal Circuit to reach the wrong result. Properly maintaining this distinction between liability and proof of damages resolves any concerns that U.S. patent law would "rule the world." *Microsoft*, 550 U.S. at 454.

Likewise, the Federal Circuit's concern that the award of lost profits in this case would render § 271(f) (covering components) broader than § 271(a) (covering complete inventions) is unfounded. Section 271(f) covers a narrow circumstance that § 271(a) does not cover and was specifically intended to have extraterritorial reach. *Deepsouth*, 406 U.S. at 528-

29; *Microsoft*, 550 U.S. at 444-45. Section 271(f) was intended to protect patent owners from sales abroad in the same way that § 271(a) protects patent owners from domestic sales. Permitting full compensation for the resulting extraterritorial injuries accomplishes this purpose.

CONCLUSION

The presumption against extraterritoriality is a canon of construction, not a limit on Congress's power to legislate. *Morrison*, 561 U.S. at 255. By enacting § 271(f), Congress granted some degree of protection to the owners of U.S. patents in foreign markets. By denying full compensation in any case where foreign activity is at issue, the Federal Circuit eviscerates the protection Congress intended to provide. This is the rare case where Congress has indicated an intent to give the law an extraterritorial application, and this Court's recent guidance has set a clear path for the lower courts to follow in such cases. This case therefore provides an opportunity for this Court to further illuminate the path for future cases. For all the foregoing reasons, IPO respectfully requests this Court to confirm that foreign activity may be used to show otherwise compensable injuries from patent infringement and to correct the Federal Circuit's erroneous application of the presumption against extraterritoriality in the present case.

Respectfully submitted,

D. Bartley Eppenauer
Counsel of Record
SHOOK, HARDY & BACON, L.L.P
701 Fifth Avenue
Suite 6800
Seattle, Washington 98104
(206) 344-7600

Patrick A. Lujin
Craig M. Edgar
SHOOK, HARDY & BACON, L.L.P
2555 Grand Blvd
Kansas City, Missouri 64108
(816) 474-6550

Kyle E. Friesen
SHOOK, HARDY & BACON, L.L.P
600 Travis Street, Suite 3400
Houston, Texas 77002
(713) 227-8008

Henry Hadad, *President*
Steven W. Miller, *Chair,*
Amicus Brief Committee
Mark W. Lauroesch,
Executive Director
INTELLECTUAL PROPERTY
OWNERS ASSOCIATION
1501 M Street, NW
Suite 1150
Washington, DC 20005
(202) 507-4500

Dated: March 5, 2018

APPENDIX

APPENDIX[1]

Members of the Board of Directors Intellectual Property Owners Association

Brett Alten
Hewlett Packard Enterprise

Ron Antush
Nokia Inc.

Estelle Bakun
Exxon Mobil Corp.

Scott Barker
Micron Technology, Inc.

Edward Blocker
Koninklijke Philips N.V.

Amelia Buharin
Intellectual Ventures, LLC

Karen Cochran
Shell International B.V.

John D. Conway
Sanofi

William J. Coughlin
Ford Global Technologies LLC

Robert DeBerardine
Johnson & Johnson

Buckmaster de Wolf
General Electric Co.

Anthony DiBartolomeo
SAP AG

Daniel Enebo
Cargill, Inc.

Louis Foreman
Enventys

Scott M. Frank
AT&T

Darryl P. Frickey
Dow Chemical Co.

---

1. IPO procedures require approval of positions in briefs by a two-thirds majority of directors present and voting.

Appendix

Gary C. Ganzi
Evoqua Water Technologies, LLC

Tanuja Garde
Raytheon Co.

Krish Gupta
Dell Technologies

Henry Hadad
Bristol-Myers Squibb Co.

Heath Hoglund
Dolby Laboratories

Thomas R. Kingsbury
Bridgestone Americas, Inc.

William Krovatin
Merck & Co., Inc.

Mark W. Lauroesch
Intellectual Property Owners Association

Michael Lee
Google Inc.

Peter Lee
Thermo Fisher Scientific Inc.

Elizabeth Lester
Equifax Inc.

Timothy Loomis
Qualcomm, Inc.

Thomas P. McBride
Monsanto Co.

Steven W. Miller
Procter & Gamble Co.

Kelsey Milman
Caterpillar Inc.

Micky Minhas
Microsoft Corp.

Lorie Ann Morgan
Gilead Sciences, Inc.

Theodore Naccarella
InterDigital Holdings, Inc.

Douglas K. Norman
Eli Lilly and Co.

Appendix

Dana Rao
Adobe Systems Inc.

Kevin H. Rhodes
3M Innovative
Properties Co.

Paik Saber
Medtronic, Inc.

Matthew Sarboraria
Oracle USA Inc.

Manny Schecter
IBM Corp.

Jessica Sinnott
DuPont

Thomas Smith
GlaxoSmithKline

Todd Spalding
Alexion
Pharmaceuticals

Daniel Staudt
Siemens

Brian Suffredini
United Technologies
Corp.

James J. Trussell
BP America, Inc.

Roy Waldron
Pfizer, Inc.

BJ Watrous
Apple Inc.

Stuart L. Watt
Amgen, Inc.

Michael Young
Roche, Inc.

No. 16-1011

IN THE

Supreme Court of the United States

WESTERNGECO LLC,

Petitioner,

v.

ION GEOPHYSICAL CORPORATION,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

AMICUS CURIAE BRIEF OF LAW PROFESSOR STEPHEN YELDERMAN IN SUPPORT OF PETITIONER

STEPHEN YELDERMAN
UNIVERSITY OF NOTRE DAME
LAW SCHOOL
Eck Hall of Law
Notre Dame, IN 46556
(574) 631-2264

RACHEL C. HUGHEY
Counsel of Record
MERCHANT & GOULD P.C.
3200 IDS Center
80 South Eighth Street
Minneapolis, MN 55402
(612) 332-5300
rhughey@merchantgould.com

Counsel for Amicus Curiae

March 1, 2018

279026

COUNSEL PRESS
(800) 274-3321 • (800) 359-6859

TABLE OF CONTENTS

Page

TABLE OF CONTENTS i

TABLE OF CITED AUTHORITIES ii

INTEREST OF *AMICUS CURIAE* 1

SUMMARY OF THE ARGUMENT 1

ARGUMENT 3

I. A Territorial Limit on Evidence of Harm Is Inconsistent with the Rightful Position Principle 6

II. A Territorial Limit on Evidence of Harm Is Inconsistent with Longstanding Remedial Practice 10

III. A Number of Well-Established Doctrines Are Available to Limit Claims of Lost Profits 15

1. Causation-in-fact 16

2. Proximate Causation 18

3. Reasonable Certainty, New Businesses, and Other Settled Rules of Compensatory Damages 25

CONCLUSION 26

TABLE OF CITED AUTHORITIES

Page

Cases

American Seating Co. v. USSC Grp., Inc.,
514 F.3d 1262 (Fed. Cir. 2008) 23

Armendiaz v. Stillman,
54 Tex. 623 (Tex. 1881) 14

Aro Mfg. Co. v. Convertible Top Replacement Co.,
377 U.S. 476 (1964).....4, 7

Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters,
459 U.S. 519 (1983).....15, 19

Beck v. Prupis,
529 U.S. 494 (2000).....4

Bigelow v. RKO Radio Pictures, Inc.,
327 U.S. 251 (1946).....25

Birdsall v. Coolidge,
93 U.S. 64 (1876).....7

Buerk v. Imhaeuser,
4 F. Cas. 594 (C.C.S.D.N.Y. 1876).....20

Carey v. Piphus,
435 U.S. 247 (1978).....16

Cited Authorities

Page

Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd., 807 F.3d 1283 (Fed. Cir. 2015) 22, 23, 24, 26

Carter v. Baker, 5 F. Cas. 195 (C.C.D. Cal. 1871) 20

Consolidated Rail Corp. v. Gottshall, 512 U.S. 532 (1994) 19

Dennis v. Maxfield, 92 Mass. (10 Allen) 138 (Mass. 1865) 14

Dorsey Revolving Harvester Rake Co. v. Bradley Mfg. Co., 7 F. Cas. 946 (C.C.N.D.N.Y. 1874) 18

Dowagiac Mfg. Co. v. Minnesota Moline Plow Co., 235 U.S. 641 (1915) 12, 13

eBay Inc. v. MercExchange, LLC, 547 U.S. 388 (2006) 27

Feltner v. Columbia Pictures Television, Inc., 523 U.S. 340 (1998) 4

Fishel v. Lueckel, 53 F. 499 (C.C.S.D.N.Y. 1892) 13

Cited Authorities

Page

The Gazelle,
(1844) 2 W. Rob. 279, 166 Eng. Rep. 759
(High Ct. of Adm.) 14

General Motors Corp. v. Devex Corp.,
461 U.S. 648 (1983) 5

Goulds' Mfg. Co. v. Cowing,
105 U.S. 253 (1881) 13

Grain Processing Corp. v. American Maize-Products Co.,
185 F.3d 1341 (Fed. Cir. 1999) 17, 18

Holmes v. Securities Investor Protection Corp.,
503 U.S. 258 (1992) 19

K. W. Ignition Co. v. Temco Elec. Motor Co.,
283 F. 873 (6th Cir. 1922) 13

Ketchum Harvester Co. v. Johnson Harvester Co.,
8 F. 586 (C.C.N.D.N.Y 1881) 11, 12, 13

Koninklijke Luchtvaart Maatschaapij, N. V. v. United Technologies Corp.,
610 F.2d 1052 (2d Cir. 1979) 14

Lam, Inc. v. Johns-Manville Corp.,
718 F.2d 1056 (Fed. Cir. 1983) 7

Cited Authorities

Page

Lexmark Int'l, Inc. v. Static Control Components, Inc., 134 S. Ct. 1377 (2014) 19, 25

Livingstone v. Rawyards Coal Co. (1880) 5 App. Cas. 25 6

The Margaret J. Sanford, 37 F. 148 (C.C.S.D.N.Y. 1888) 14

Mayo v. City of Springfield, 138 Mass. 70 (1884) 26

McSherry Mfg. Co. v. Dowagiac Mfg. Co., 163 F. 34 (6th Cir. 1908) 7, 17

Mentor Graphics Corp. v. Eve-USA, Inc., 851 F.3d 1275 (Fed. Cir. 2017) 17

Morissette v. United States, 342 U.S. 246, 263 (1952) 4

Nken v. Holder, 556 U.S. 418 (2009) 5, 15

Oil Well Improvements Co. v. Acme Foundry & Mach. Co., 31 F.2d 898 (8th Cir. 1929) 16, 17

Piper v. Brown, 19 F. Cas. 722 (C.C.D. Mass. 1873) 21, 22

Cited Authorities

Page

Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc., 711 F.3d 1348 (Fed. Cir. 2013) ..... *passim*

Power Specialty Co. v. Connecticut Light & Power Co., 80 F.2d 874 (2d Cir. 1936) 17

Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538 (Fed. Cir. 1995) 9, 19

SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC, 137 S. Ct. 954 (2017) 6

Seymour v. McCormick, 57 U.S. (16 How.) 480 (1854) 16

Sheldon v. Metro-Goldwyn Pictures Corp., 309 U.S. 390 (1940) 13

Sheldon v. Metro-Goldwyn Pictures Corp., 106 F.2d 45 (2d Cir. 1939) 13

Southern Pac. Co. v. Darnell-Taenzer Lumber Co., 245 U.S. 531 (1918) 19

Staub v. Proctor Hosp., 562 U.S. 411 (2011) 15

Cited Authorities

Page

Sturgis v. Clough,
68 U.S. (1 Wall.) 269 (1863) 14

Welch v. Ware,
32 Mich. 77 (Mich. 1875) 14

WesternGeco LLC v. ION Geophysical Corp.,
791 F.3d 1340 (Fed. Cir. 2015) 23

Whittemore v. Cutter,
29 F. Cas. 1123 (C.C.D. Mass. 1813) 12

Wicker v. Hoppock,
73 U.S. (6 Wall.) 94 (1867) 7

Williamson v. Barrett,
54 U.S. (13 How.) 101 (1851) 14

Wolcott v. Mount,
36 N.J.L. 262 (N.J. 1873) 25

Yale Lock Mfg. Co. v. Sargent,
117 U.S. 536 (1886) 4, 6, 7

Statutes

35 U.S.C. § 271 ..... 9, 26

35 U.S.C. § 283 3

Cited Authorities

Page

35 U.S.C. § 284 ..... *passim*

35 U.S.C. § 285 3

Pub. L. No. 60-349, § 25(b), 35 Stat. 1075, 1081 (1909) .. 4

R.S. §4921, as amended 42 Stat. 392 4

Other Authorities

3 Anthony William Deller, *Walker on Patents* (1937) 20, 22

Charles T. McCormick, *Handbook on the Law of Damages* (1935) 25, 26

Restatement (First) of Torts (1939) 6

Restatement (Second) of Torts (1965) 26

2 Simon Greenleaf, *Treatise on the Law of Evidence* (16th ed. 1899) 7, 16

1 Theodore Sedgwick, et al., *Treatise on the Measure of Damages* (9th ed. 1912) ..... *passim*

3 William C. Robinson, *The Law of Patents for Useful Inventions* (1890) 7

INTEREST OF *AMICUS CURIAE*

Amicus curiae is a full-time professor of remedies and patent law with an interest in the development of patent doctrine in a manner that is consistent with common law principles.[1]

SUMMARY OF THE ARGUMENT

Smith owns a factory in the United States. Typically, Smith sells the products of that factory in both domestic and international markets. But, as a result of his neighbor Jones's negligence, Smith's factory is seriously damaged, and must close for several months of repairs. Smith sues Jones, seeking to recover not just the cost of the repairs, but also the profits Smith would have earned if Jones's negligence had not forced the factory to close.

Common law damages doctrines erect a number of barriers Smith must clear to collect the full measure of damages he seeks. Smith must prove that he really would have made those lost sales in a world where Jones had not been negligent—that is, that Jones's negligence was

---

1. No party's counsel authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund its preparation or submission. Notre Dame Law School provides financial support for activities related to faculty members' research and scholarship, which helped defray the costs of preparing this brief. (The School is not a signatory to the brief, and the views expressed here are those of the *amicus curiae*.) Otherwise, no person or entity other than the *amicus curiae* or his counsel has made a monetary contribution intended to fund the preparation or submission of this brief. The parties have consented to this filing, and those consents are on file with the Clerk.

a but-for cause of the claimed losses. Smith must further establish that Jones's negligence was the proximate cause of Smith's lost sales—that these business losses were not too remote a result of Jones's actions. Moreover, it will not be enough to show that some indeterminate amount of profits was lost because of Jones; Smith will have to introduce evidence sufficient for a factfinder to arrive at a specific number, and that specific number will have to be supported with reasonable certainty. If Smith's business is new or otherwise lacks a clear track record, his task will be even more difficult.

Still, there is one fact here that does not, in and of itself, erect an additional hazard for Smith in his quest for lost profits: the fact that his business involved selling his wares both at home and abroad. Once the tort is complete and liability proven, the compensatory damages question that remains is a simple one—how to make Smith whole. Longstanding remedial principles provide no basis for drawing a line at the water's edge, requiring a factfinder to don blinders against the very real harms Smith may have suffered in foreign markets as the direct result of Jones's tortious acts in the United States. Drawing such a line would subvert the fundamental goal of compensatory damages: that the prevailing plaintiff be placed, as nearly as possible, in the position he would have enjoyed absent the wrong.

This simple example is, of course, not before the Court. But it contains within it every principle necessary to decide this case. Changing the claim from simple negligence to infringement of an intellectual property right does not disturb time-honored remedial doctrines, certainly well-known to Congress, and codified in the 1952 Patent Act.

Nor does it matter that this damages dispute arises from a comparatively obscure provision of the infringement statute, 35 U.S.C. § 271(f), one that was added later for the very purpose of expanding the territorial reach of U.S. patent law. Although these details help Petitioner's cause, they should not obscure the deeper mischief afoot. The Federal Circuit's error is, at root, a departure from well-established damages doctrine, and so transcends the particular theory of infringement liability that happens to be presented in this case.

To correct the error below, the Federal Circuit should be reversed in broad terms, making clear that traditional damages principles apply in patent cases like any other.

ARGUMENT

The Patent Act's infringement statute is complex, but its damages provision is straightforward. "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court." 35 U.S.C. § 284. The statute goes on to permit trebling of damages; other provisions authorize awards of attorneys' fees (§ 285) and issuance of injunctions (§ 283).

Congress did not draw the words "damages adequate to compensate for the infringement" from the ether. Those words have a long provenance at common law, and, in choosing those words, Congress indicated that a particular remedial model was mandatory in cases in which patent infringement had been proven. Prevailing patent holders

no longer had the option of receiving an accounting for profits, as they had prior to 1946. *See* R.S. § 4921, as amended, 42 Stat. 392; *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 505-06 (1964) (plurality opinion) (explaining 1946 amendments). Nor were patent holders entitled to statutory damages, as copyright holders then enjoyed under the Copyright Act of 1909. *See* Pub. L. No. 60-349, § 25(b), 35 Stat. 1075, 1081 (1909); *Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340, 349-54 (1998) (recounting history of statutory damages in copyright). Rather, from the menu of familiar remedial schemes, Congress selected *compensatory* (or "actual") damages in particular, and in so doing made an informed choice to bring along the accompanying doctrines that applied at common law. *See Beck v. Prupis*, 529 U.S. 494, 500-01 (2000) ("[W]hen Congress uses language with a settled meaning at common law, Congress 'presumably knows and adopts the cluster of ideas that were attached to each borrowed word in the body of learning from which it was taken and the meaning its use will convey to the judicial mind unless otherwise instructed.'" (quoting *Morissette v. United States*, 342 U.S. 246, 263 (1952))).

By using the words "damages adequate to compensate for the infringement," Congress did two things. First, it provided a principle of measurement to guide fact-finders in their assessment of patent damages. Specifically, a prevailing patentee should be restored to her rightful position—that is, the pecuniary position she would have enjoyed absent the infringement. *See Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 552 (1886). Second, Congress incorporated a well-developed body of law informing how that principle of measurement should be implemented. These doctrines—comprising causation requirements,

evidentiary burdens, and prudential rules—channel, and in some cases limit, the availability of compensatory damages in patent cases.

In a line of cases starting with its decision in *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013), the Federal Circuit has developed a novel, territorial limit on the evidence a patentee may use to prove the harm caused by a domestic act of infringement. This additional hurdle to compensatory damages was unknown at common law, and subverts the goal of providing a patentee "full compensation for any damages he suffered as a result of the infringement." *See General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 654-55 (1983) (internal quotation marks omitted).

The Federal Circuit principally rooted its novel rule in the presumption against extraterritoriality. *See* Pet. App. 41a-45a; *Power Integrations*, 711 F.3d at 1371-72. The petitioner has ably shown why this was a misreading of this Court's precedents: the presumption of extraterritoriality is simply irrelevant to the measure of damages once liability is established. *See* Petitioner's Opening Brief at 28-34, 46-48. These arguments will not be repeated here.

This brief instead addresses the presumption that *does* apply in this case, and which the Federal Circuit failed to heed: the "presumption favoring the retention of long-established and familiar principles" of the law of remedies. *See Nken v. Holder*, 556 U.S. 418, 433 (2009). By any measure, the Federal Circuit has departed from the foundational principles of compensatory damages that

have applied in patent, tort, contract, and other cases for well over a century. This was error. As this Court has made clear, "[p]atent law is governed by the same common-law principles, methods of statutory interpretation, and procedural rules as other areas of civil litigation." *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, 137 S. Ct. 954, 964 (2017). A broad reversal is necessary to restore common law damages principles in patent cases.

I. A Territorial Limit on Evidence of Harm Is Inconsistent with the Rightful Position Principle

The central tenet of compensatory damages is that the plaintiff should be restored to the position she enjoyed prior to the wrong. As Lord Blackburn explained, these damages are "that sum of money which will put the party who has been injured, or who has suffered, in the same position as he would have been in if he had not sustained the wrong for which he is now getting his compensation." *Livingstone v. Rawyards Coal Co.*, (1880) 5 App. Cas. 25 (H.L.) 39; *see also* Restatement (First) of Torts § 903 cmt. a (1939) ("Where there has been harm only to the pecuniary interests of a person, compensatory damages are designed to place him in a position substantially equivalent in a pecuniary way to that which he would occupy had no tort been committed."). In a patent case, the measure of compensatory damages is thus "the difference between [the patentee's] pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred." *Yale Lock*, 117 U.S. at 552. The proposition that actual damages should return the plaintiff to the pecuniary position she would have been in but-for the wrong is unimpeachable—it is the founding

principle of the compensatory damages remedy. *See Birdsall v. Coolidge*, 93 U.S. 64, 64 (1876) ("Compensatory damages . . . shall be the result of the injury alleged and proved, and that the amount awarded shall be precisely commensurate with the injury suffered, neither more nor less, whether the injury be to the person or estate of the complaining party."); *Wicker v. Hoppock*, 73 U.S. (6 Wall.) 94, 99 (1867) ("The general rule is, that when a wrong has been done, and the law gives a remedy, the compensation shall be equal to the injury . . . The injured party is to be placed, as near as may be, in the situation he would have occupied if the wrong had not been committed."); 2 Simon Greenleaf, *Treatise on the Law of Evidence* § 253 (16th ed. 1899) ("[Damages] should be precisely commensurate with the injury, neither more nor less").

One way infringement may leave a patentee in an inferior pecuniary condition is through the loss of profits that the patentee would have made but-for the infringement. When the patent holder must compete with an infringer, she may suffer in terms of lower price, lost volume, or both, and as a result may collect a smaller amount of profits than she would have had the infringer respected her patent rights. *See McSherry Mfg. Co. v. Dowagiac Mfg. Co.*, 163 F. 34, 35 (6th Cir. 1908); *Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056, 1065 (Fed. Cir. 1983); 3 William C. Robinson, *The Law of Patents for Useful Inventions* § 1061 (1890). The rule for this calculation is easy to state. Lost profits are simply "the difference between the money [the patentee] would have realized from such sales if the infringement had not interfered with such monopoly, and the money he did realize from such sales." *Yale Lock*, 117 U.S. at 552-53; *see also Aro Mfg.*, 377 U.S. at 507 ("[The] question [is]

primarily, had the Infringer not infringed, what would [the] Patentee Holder–Licensee have made?"). Such a sum puts the patentee in the pecuniary position she would have enjoyed in a world without patent infringement, thus achieving the fundamental purpose of compensatory damages: restoring the plaintiff to her rightful position.

The Federal Circuit has lost sight of this basic principle. When the victim of domestic patent infringement happens to earn some portion of her profits overseas, those profits are simply imagined out of existence. *See* Pet. App. 44a; *Power Integrations*, 711 F.3d at 1371. Critically, the case before the Court was *not* decided based on a failure of proof, doubts about actual causation, or because the harms were too remote—a holding on any of those grounds could have had very strong footing in a number of long-recognized damages rules. *See infra* Part III. Instead, the Federal Circuit denied lost profits only because measuring the actual harm done to the plaintiff would require taking notice of the foreign consequences of domestic infringement. *See* Pet. App. 41a–44a. This per se, categorical limit on evidence of harm has no antecedent in longstanding remedial practice, *see infra* Part II, and leaves the patentee in a position that is openly inferior to the position she would have enjoyed but-for the domestic acts of infringement.

To illustrate how this artificial blinder subverts the rightful position principle, suppose the holder of a U.S. patent has a well-established business using her patented tool in Texas and Louisiana. Each year, the patent holder earns $2 million in profit by using this tool in Texas and another $1 million in profit by using this tool in Louisiana. A competitor begins making his own version of the

patented tool and selling it to customers in Texas, directly infringing the patent under § 271(a). These customers in turn compete with the patent holder by using the tool to perform work in both Texas and Louisiana. As a result of this new competition, the patentee's profits drop to zero for a year. Then infringement ceases, and the patentee's profits return to their $3 million annual level.

No one would dispute that the sum necessary to restore the patent holder to her rightful position is $3 million. Had the other manufacturer not infringed, the patentee would have earned $2 million in annual profits from work in Texas and $1 million in annual profits from work in Louisiana. Instead, she earned nothing. Compensatory damages call for restoring the plaintiff to her rightful position, so the plaintiff should be awarded the full $3 million. On these facts, the *en banc* Federal Circuit would seem to agree. *See Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995) ("[T]o refuse to award reasonably foreseeable damages necessary to make [the patentee] whole would be inconsistent with the meaning of § 284.").

But if we change the facts slightly so that the patent holder is using her patented tool not in Texas and Louisiana but in Texas and *France*, her quest for full compensation will encounter the Federal Circuit's recently developed territorial limit. The $2 million of profits lost in Texas would remain cognizable, but the court would deny recovery of the $1 million of profits lost in France. See Pet. App. 42a ("[U]nder § 271(a) the export of a finished product cannot create liability for extraterritorial use of that product."). The patentee's total recovery would now be capped at $2 million.

This change in outcome is remarkable, because nothing about the infringing conduct has changed—the other manufacturer is still infringing under § 271(a), at the same volume, still in Texas, through the manufacture and sale of the patented tool. Moreover, the harm those domestic acts of infringement have done to the patentee is the same too—she is still $3 million worse off as a direct result of the infringement. But, because the patent holder's business is now vulnerable in a different market—she is losing profits in Texas and France, not Texas and Louisiana—the Federal Circuit would stop short of restoring her rightful position.

This departure from the rightful position principle is not the product of a peculiar example. Taken to its logical conclusion, the Federal Circuit's territorial limit on evidence of harm will lead to damages that fail to restore the patentee to her rightful position in *all* cases in which some portion of her lost profits would have come from overseas. That result is inconsistent with the basic goal of compensatory damages, and should be sustained only if it can find support in some other, well-established remedial doctrine. It cannot.

II. A Territorial Limit on Evidence of Harm Is Inconsistent with Longstanding Remedial Practice

To be sure, the principle that a plaintiff should be restored to her rightful position is not absolute. A number of rules and requirements for damages were developed at common law, and these doctrines were incorporated along with the rightful position principle in § 284. *See infra* Part III. But, critically, a territorial limit on evidence of harm was not among them. To the contrary, until the Federal

Circuit's recent innovation in *Power Integrations*, it was uncontroversial that providing full compensation for a domestic wrong would sometimes require taking account of foreign consequences.

A number of early patent cases are difficult to reconcile with the Federal Circuit's territorial limit on evidence of harm. For example, in *Ketchum Harvester Co. v. Johnson Harvester Co.*, 8 F. 586 (C.C.N.D.N.Y 1881), the infringer produced the patented machine in the United States, which it then sold both here and abroad. Everyone agreed the act of selling outside the United States did not constitute infringement; the only question was what damages the patentee could receive for each unit that was manufactured domestically but sold abroad. The infringer argued that the patentee should be limited to nominal damages for these units, as any harm suffered by the patentee came from the foreign act of sale, rather than the domestic step of manufacture. Justice Blatchford rejected this territorial limit on evidence of harm, explaining:

> It is true that the sale is the fruition, and gives the profit, and that the sale is abroad, and the patent does not cover the sale abroad. But the unlawful act of making is made hurtful by a sale, wherever made . . . [T]o deprive the patentee of all damages for unlawful making here, because the article is sold abroad, is to deprive him of part of what his patent secures to him.

Id. at 587.

This holding is directly contrary to the Federal Circuit's rule that a court may not take notice of the foreign consequences flowing from domestic acts of infringement. After all, if the defendant had been making the infringing machines simply for the sake of storing them in a warehouse (or, say, to use them as firewood), the patentee would have been unable to prove any harm, and thus would have been eligible only for nominal damages. *See id.*; *Whittemore v. Cutter*, 29 F. Cas. 1123, 1125 (C.C.D. Mass. 1813) (No. 17,601).[2] It was the defendant's foreign sale that magnified the harm of the domestic infringement, and it was this same foreign sale that made the patentee eligible for something more than nominal damages. Once a domestic act of infringement was proven, "it is no injustice to attribute to the unlawful act all the consequences which flow from it"—even if those consequences unfold outside the United States. *See Ketchum Harvester*, 8 F. at 587.

Thus, contrary to the Federal Circuit's suggestion in *Power Integrations*, *see* 711 F.3d at 1371, the question of how the rightful position principle interacts with the territorial limits of intellectual property is not new. And until quite recently, the answer was clear: "The act of infringement having been committed in this country, the subsequent acts abroad are immaterial, *except upon the*

2. At the time of *Ketchum Harvester*, a patentee unable to prove actual harm would have received only nominal damages. However, this Court later approved use of a reasonable royalty as a fallback method in cases in which other measures of harm defied proof. *See Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 648-50 (1915). This reasonable royalty floor is now required by statute. *See* 35 U.S.C. § 284 (stating that the Court shall award damages "in no event less than a reasonable royalty for the use made of the invention by the infringer").

question of damages." *Fishel v. Lueckel*, 53 F. 499, 501 (C.C.S.D.N.Y. 1892) (emphasis added). Indeed, a number of pre-1952 patent cases, in both law and equity, expressly contemplate awards based on consequences that unfold overseas. *See Ketchum Harvester*, 8 F. at 586-87 (awarding non-nominal damages as a result of foreign sales); *Goulds' Mfg. Co. v. Cowing*, 105 U.S. 253, 254-56 (1881) (accounting for profits of infringing pumps manufactured in U.S. but sold in Canada); *K. W. Ignition Co. v. Temco Elec. Motor Co.*, 283 F. 873, 874, 879-80 (6th Cir. 1922) (accounting for profits of foreign sales (citing *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641 (1915))). Copyright owners could likewise look overseas to establish their entitlement to a particular remedy. *See Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52-54 (2d Cir. 1939) (citing *Goulds'* and *Dowagiac* to permit recovery of profits made through foreign use of a domestically manufactured copy), *aff'd*, 309 U.S. 390 (1940).

But it is not just patent and copyright plaintiffs who have long been permitted to bring foreign evidence to establish their rightful position. In fact, cases from many disparate areas of law have consistently reached or implied the same conclusion. For example, by the early twentieth century it was well established in both courts of law and admiralty that a ship owner could recover damages for loss of use of a vessel that was improperly detained or otherwise delayed. *See* 1 Theodore Sedgwick, et al., *Treatise on the Measure of Damages* § 196 (9th ed. 1912). If the law of damages recognized a territorial limit on cognizable harm like the one the Federal Circuit has applied in this case, the lost profits claims of these ship owners would have encountered it constantly. For example, if damages cannot account for foreign consequences, loss

of use of a ship would frequently be limited to profits from domestic ports of call, and forsaken freight charges prorated to account for noncompensable mileage upon the high seas. But none of these cases even hint at such a limit. *See, e.g., Williamson v. Barrett*, 54 U.S. (13 How.) 101, 111-12 (1851); *Sturgis v. Clough*, 68 U.S. (1 Wall.) 269, 271-72 (1863); *The Margaret J. Sanford*, 37 F. 148, 149-52 (C.C.S.D.N.Y. 1888) (evaluating evidence of profits that a ship would have earned if damage suffered in New York had not delayed her return to Bombay); *The Gazelle* (1844) 2 W. Rob. 279, 166 Eng. Rep. 759 (High Ct. of Adm.) ("In estimating the amount of the compensation to be paid for the detention of the vessel . . . the suffering party [should be put] as nearly as possible in the same situation in which he would have been if no collision had taken place."). Nor can this territorial limit be found in any number of tort or contract cases presenting facts where such a limit might have come into play. *See, e.g., Dennis v. Maxfield*, 92 Mass. (10 Allen) 138 (Mass. 1865) (breach of contract to share proceeds of whaling expedition); *Welch v. Ware*, 32 Mich. 77 (Mich. 1875) (lost income of traveling actor waylaid by assault); *Armendiaz v. Stillman*, 54 Tex. 623, 627-28 (Tex. 1881) (action for damages against Texas property owner whose incursions into Rio Grande caused destruction in Mexico); *Koninklijke Luchtvaart Maatschaapij, N. V. v. United Technologies Corp.*, 610 F.2d 1052, 1053-56 (2d Cir. 1979) (loss of use damages for defective international airliner).

The Federal Circuit's territorial limit on evidence of harm thus stands as a sharp departure from longstanding remedial practice. It appears to have no antecedent in cases of infringement, trespass, libel, or breach of contract, whether heard in courts of law, equity, or

admiralty. It therefore would have been most surprising to the 1952 Congress that crafted § 284 to provide damages "adequate to compensate for the infringement." And, as a novel, atextual limit on the rightful position principle, it contravenes the presumption that Congress sought to preserve rather than displace longstanding remedial doctrines. *See Nken*, 556 U.S. at 1760.

III. A Number of Well-Established Doctrines Are Available to Limit Claims of Lost Profits

Restoring the longstanding practice of permitting plaintiffs to introduce evidence of foreign harm would in no sense break open the coffers of boundless patent damages. To the contrary, a number of limits on damages—relating to issues like causation, proof, and other matters—were well-established at the time Congress drafted the 1952 Patent Act. These doctrines were incorporated through Congress's election of "damages adequate to compensate for the infringement" as the measure of monetary relief under § 284. *See Staub v. Proctor Hosp.*, 562 U.S. 411, 417 (2011) ("[W]e start from the premise that when Congress creates a federal tort it adopts the background of general tort law."); *see also Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters*, 459 U.S. 519, 532-33 (1983) (noting that Congress assumed the "well-accepted common-law rules" of damages would apply in antitrust litigation). And these longstanding doctrines—the ones the 1952 Congress *had* heard of and presumptively adopted—are quite capable of addressing any concerns that might arise in awarding foreign lost profits.

1. Causation-in-fact

To begin, it is well-established that a plaintiff must prove that her claimed injury was actually caused by the wrongful act. *See Carey v. Piphus*, 435 U.S. 247, 254-55, 261-64 (1978) ("The cardinal principle of damages in Anglo-American law is that of compensation for the injury caused to plaintiff by defendant's breach of duty." (internal citation and quotation marks omitted)); 2 Greenleaf § 254 ("All damages must be *the result* of the injury complained of; whether it consists in the withholding of a legal right, or the breach of a duty legally due to the plaintiff." (emphasis in original)). When it comes to claims of lost profits, proof of actual causation is a persistent challenge, since there is no way of knowing for certain what might have been in the counterfactual universe in which the defendant had not committed the tort. *See* 1 Sedgwick § 173 ("Where an injured party claims compensation for gain prevented, the amount of loss is always to some extent conjectural; for there is no way of proving that what might been, what would have been."). Despite this evidentiary difficulty, a patentee nonetheless cannot obtain lost profits without proof of actual causation. "The question," after all, "is not what speculatively [the patentee] may have lost, but what actually he did lose." *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 490 (1854). As a result, "[t]here is no presumption that [the patentee] would have sold its devices to those who purchased the infringing articles." *Oil Well Improvements Co. v. Acme Foundry & Mach. Co.*, 31 F.2d 898, 901 (8th Cir. 1929) (citing *Seymour*, 57 U.S. at 490).

Even in a case of purely domestic competition, the existence of multiple suppliers and non-infringing substitutes can make it quite difficult to prove lost

profits. For example, when there are a number of competing products on the market, both infringing and non-infringing, it may be "impossible to say how many, if any, of the sales made by [the infringer] were sales lost by [the patentee]." *McSherry Mfg. Co. v. Dowagiac Mfg. Co.*, 163 F. 34, 35 (6th Cir. 1908). Even when the patentee and the infringer were the only manufacturers of the patented product at the time, the patentee may still need to bring customer-by-customer evidence to show that her own offering would have been preferable to the non-infringing substitutes on the market. *See Power Specialty Co. v. Connecticut Light & Power Co.*, 80 F.2d 874, 875-77 (2d Cir. 1936). When proof of sales diversion is tough to come by, the patentee may be left to recover lost profits based on only a tiny portion of the infringer's actual sales. *See Oil Well Improvements*, 31 F.2d. at 901. The Federal Circuit has, quite appropriately, continued this demanding tradition when it comes to proving actual causation of lost profits. *See Grain Processing Corp. v. American Maize-Products Co.*, 185 F.3d 1341, 1350 (Fed. Cir. 1999) ("To prevent the hypothetical from lapsing into pure speculation, this court requires sound economic proof of the nature of the market and likely outcomes with infringement factored out of the economic picture."); *Mentor Graphics Corp. v. Eve-USA, Inc.*, 851 F.3d 1275, 1284-86 (Fed. Cir. 2017) (collecting recent Federal Circuit cases and academic commentary to show difficulty of proving but-for causation), *petition for cert. filed*, 86 U.S.L.W. 3299 (U.S. Nov. 30, 2017) (No. 17-804).

Tall as this order may be in an ordinary case, a patentee seeking the profits from sales lost abroad will face an even steeper climb. An obvious question, likely to arise almost any time a patentee attempts such a feat,

is why the defendant could not have just manufactured and sold the accused product abroad, and thus exploited the invention without ever encountering the U.S. patent system? *Cf. Grain Processing*, 185 F.3d at 1350-51 ("[A] fair and accurate reconstruction of the 'but for' market also must take into account, where relevant, alternative actions the infringer foreseeably would have undertaken had he not infringed."). In some cases, this question may prove the death knell for a patentee's quest for foreign lost profits. But in other cases, a patentee might have satisfactory answers. For example, other intellectual property rights, customer relationships, and domestic manufacturing advantages may prevent complete expatriation from being a realistic alternative for the accused infringer. *See Dorsey Revolving Harvester Rake Co. v. Bradley Mfg. Co.*, 7 F. Cas. 946, 947 (C.C.N.D.N.Y. 1874) (No. 4,015) ("A patentee may find it greatly to his advantage, and greatly profitable, to supply a foreign demand for an article of American manufacture, and may be able successfully to compete with foreign machinists in the making . . . [H]is actual monopoly does include all making and selling here, with all the advantages which are incident thereto."). Given all this, proving foreign lost profits may never be easy. But when the U.S. patent holder *can* make that case—when she can show that the foreign lost profits really were the result of the domestic infringement—there is no reason to ignore this evidence of actual causation.

2. Proximate Causation

In addition to causation-in-fact, the patentee must show that the defendant's infringing acts were the proximate cause of the claimed lost profits. "For

centuries, it has been a well established principle of the common law, that in all cases of loss, we are to attribute it to the proximate cause, and not to any remote cause." *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1390 (2014) (internal quotation marks and modifications omitted); *see also Southern Pac. Co. v. Darnell-Taenzer Lumber Co.*, 245 U.S. 531, 533-34 (1918) ("The general tendency of the law, in regard to damages at least [is not to] . . . attribute remote consequences to a defendant so it holds him liable if proximately the plaintiff has suffered a loss."). At heart, this is a "judicial tool[] used to limit a person's responsibility for the consequences of [his] own acts," *Holmes v. Securities Investor Protection Corp.*, 503 U.S. 258, 268 (1992), rooted in the recognition that it would be impossible to trace the consequences of events ad infinitum. *See Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters*, 459 U.S. 519, 532 n.24 (1983).[3]

---

3. The Federal Circuit's standard for measuring proximate causation is "objective foreseeability," *see Rite-Hite*, 56 F.3d at 1546, which Petitioner appears to adopt approvingly. *See* Petitioner's Opening Brief at 2, 3, 18, 22, 26, 41, 48, 51-52 & 54. It should be noted, however, that this Court has never announced foreseeability as the operative test for proximate causation in patent law, and that it is far from clear whether it would be appropriate to do so. *Compare Consolidated Rail Corp. v. Gottshall*, 512 U.S. 532, 546 (1994) (explaining, in the context of negligence, that proximate causation and reasonable foreseeability are "functionally equivalent") *with Lexmark*, 134 S. Ct. at 1390-91 (announcing a proximate cause test for false advertising claims without reference to foreseeability); *see also* 1 Sedgwick §§ 139 & 140 (cautioning against use of "foreseeability" in cases in which underlying liability is not founded on negligence). The Court need not reach this question in the present case.

Proximate cause limitations have been an established feature of patent remedies for well over a century. *See Carter v. Baker*, 5 F. Cas. 195, 202 (C.C.D. Cal. 1871) (No. 2,472); *Buerk v. Imhaeuser*, 4 F. Cas. 594, 595 (C.C.S.D.N.Y. 1876) (No. 2,107) ("The damages in such a case must be confined to the direct and immediate consequences of the infringement, and not embrace those which are both remote and conjectural."). Though the earliest cases are vague about the limits of proximate cause in patent law, the 1937 edition of Deller's *Walker on Patents* recites the following theories of harm as being too remote to serve as the basis for compensatory damages:

* The infringement "so unexpectedly reduced the business in the patented article as to make it necessary for [the patentee] to sell unpatented property at less than its real value, or to borrow money at more than a proper rate of interest"

* The infringement "encouraged other persons to infringe, from whom, by reason of insolvency or other obstacle, no recovery can be obtained"

* The infringement "caused the patentee so much trouble and anxiety that he incurred loss from inability to attend to other business"

* The infringement "caused [the patentee] to suffer competition and loss, in business outside the patent infringed".

3 Anthony William Deller, *Walker on Patents* § 832 (1937).

The first three of these examples have clear antecedents in the general law of damages, and seem to have required little explication in the context of patent law. For example, the first is a straightforward application of the well-known rule that a plaintiff may not recover damages on the grounds that the defendant's actions forced him to sell goods at a loss or resulted in a loss of credit. *See* 1 Sedgwick §§ 126c & 127. The fourth, however—that the infringement "caused [the patentee] to suffer competition and loss in business outside the patent infringed"—is by its terms specific to patent law, and so calls for some patent-specific line drawing.

An early circuit court case illustrates how this particular limit on proximate cause has long operated in patent law. In *Piper v. Brown*, 19 F. Cas. 722 (C.C.D. Mass. 1873) (No. 11,181), the patentee sought an accounting of profits from an infringer of his patented fish preservation process. In addition to the profits the infringer earned in the market for preserved salmon, the patentee sought to obtain the profits the infringer earned in the market for fresh (or "green") salmon. The theory, in short, was that the two output markets were tied by a common input market—that by using the patented preservation method, the infringer was able to take more wild salmon out of circulation, and thus was able to raise prices in the market for green salmon as well. *Id.* at 723. The court held that these profits depended "upon future bargains or speculations, or future states of the market," and therefore were too "remote and contingent" to be recoverable. *Id.*

Although additional development may be necessary as future litigants present novel theories, the proximate cause requirement stands ready to prevent patentees from obtaining foreign lost profits that are too far removed from the domestic acts of infringement. For example, suppose a patentee tried to claim that the defendant's domestic infringement had impacted global component supply, and thus had reduced the profitability of the patentee's sales in foreign markets. Even if the patentee could show actual causation on the facts, this damages theory would be foreclosed under the principle of *Piper v. Brown*—a shared input market may not serve as the connection between patented and unpatented output markets. Likewise, a patentee could not invoke domestic infringement as the cause of lost foreign sales on the theory that the infringement had distracted management, deprived the firm of capital, or otherwise increased its operating costs. *See* 3 *Walker on Patents* § 832.

Notably, several of the recent cases in which the Federal Circuit has curtailed damages on "extraterritoriality" grounds were cases in which the patent holder had likely failed to establish that the claimed losses were proximately caused by the defendant's domestic acts of infringement. For example, in *Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*, 807 F.3d 1283 (Fed. Cir. 2015), the patentee sought to collect a reasonable royalty on chips the defendant had both made and sold abroad. Of course, chips made and sold abroad did not themselves infringe the patent, but the patentee claimed these foreign sales would not have been possible without the benefit of certain design, testing, and customer-integration steps performed in the United States. The foreign sales, the theory went, were the direct result of these infringing pre-production

activities. *Id.* at 1309-11. This theory was ripe for disposal on grounds of proximate cause. But instead of engaging that question and relying on well-established common law principles, the Federal Circuit relied on its nascent extraterritoriality-of-damages jurisprudence, even extending the rule to deny claims for a reasonable royalty. *See Carnegie Mellon*, 807 F.3d at 1306-07 (*citing Power Integrations*, 711 F.3d at 1348, and *WesternGeco LLC v. ION Geophysical Corp.*, 791 F.3d 1340 (Fed. Cir. 2015)).

For its part, *Power Integrations* also involved a remote theory of damages, one which the traditional proximate cause requirement was again well-equipped to handle. There, the patentee argued that the defendant could not have made *any* foreign sales without the infringing domestic sales, on the theory that most customers would insist on using the same chip in all their devices throughout the world. *See* Non-Confidential Brief for Plaintiff-Cross Appellant Power Integrations, Inc. at 44, No. 2011-1218 (Fed Cir. June 22, 2011), 2011 WL 2827447, at *44. This claim could have been rejected in an unpublished opinion; circuit law already held that a customer preference for purchasing infringing and non-infringing products as a package was too remote a connection to obtain lost profits on the non-infringing products. *See American Seating Co. v. USSC Grp., Inc.*, 514 F.3d 1262, 1268 (Fed. Cir. 2008). But instead of resting on grounds of proximate cause, the court crafted its newfound territorial limit on damages, thereby setting the course towards the error presently before the Court.

This is not simply a matter of words. The problem with replacing the longstanding requirement of proximate cause with a newfound territorial limitation is that a test

rooted in national borders is simultaneously under- and over-inclusive. To use *Carnegie Mellon* as an example, if the infringing testing and customer integration steps are too far removed to permit damages based on the non-infringing sales of the completed design, the same should be true whether or not a national border is in the way. Whether those eventual chip sales are non-infringing because they occur overseas or because the chips themselves do not embody the claimed invention, they should not be used in the ultimate damages calculation. Likewise, if the only connection between infringing sales and non-infringing sales is a customer preference to purchase in bulk (the causal theory at the heart of *Power Integrations*), that connection should also be rejected as too remote when the bundled sales occur entirely within the United States. A blinkered view of territory overlooks the real concern with damages in many of these cases, and thus creates an improperly narrow rule of decision.

Moreover, asking the wrong question can lead to the wrong answer in the other direction as well. The patentee in *this* case has made an extremely strong showing of proximate causation—the defendant infringed by supplying components of the patented invention to the patentee's direct competitors, who in turn used those very components to take business from the patentee. *See* Petitioner's Opening Brief at 13-14. There is no analogous case to suggest these losses are too remote under traditional understandings of the proximate cause requirement. And yet an artificial territorial line, unknown at common law, has prevented the patentee from recovering the very real losses it suffered.

Admittedly, deciding cases on grounds of proximate cause will require a more nuanced inquiry, at least compared to drawing a bright (but arbitrary) line at the national border. As this Court has recognized, "[t]he proximate-cause inquiry is not easy to define." *Lexmark*, 134 S. Ct. at 1390. The good news is that "courts have a great deal of experience applying it, and there is a wealth of precedent for them to draw upon in doing so." *Id.* Moreover, adherence to common law damages principles requires nothing less.

3. Reasonable Certainty, New Businesses, and Other Settled Rules of Compensatory Damages

By adopting remedial language familiar to common law, Congress incorporated a number of additional requirements as well. For example, there is the "cardinal principle . . . that the plaintiff must establish the quantum of his loss, by evidence from which the jury will be able to estimate the extent of his injury, [and] will exclude all such elements of injury as are incapable of being ascertained by the usual rules of evidence to a reasonable degree of certainty." *See Wolcott v. Mount*, 36 N.J.L. 262, 272 (N.J. 1873). At the same time, this reasonable certainty requirement is subject to "modifying doctrines," *see* Charles T. McCormick, *Handbook on the Law of Damages* § 27 (1935), including that "where the defendant by his own wrong has prevented a more precise computation, the jury . . . may make a just and reasonable estimate of the damage based on relevant data." *Bigelow v. RKO Radio Pictures, Inc.*, 327 U.S. 251, 264 (1946). A well-developed body of law addresses the application of this requirement to newly established businesses, *see* 1 Sedgwick §§ 182 & 183, and to the loss of a statistically determinable chance

of profit, *see* McCormick § 31. And courts have long held that a plaintiff's damages should be reduced by the amount the defendant's wrong happened to benefit her—though within limits that have been carefully delineated over more than a century of application. *See Mayo v. City of Springfield*, 138 Mass. 70, 70 (1884); Restatement (Second) of Torts § 920 cmts. a&b (1965).

None of these rules are strictly necessary to cabin lost profits or even to arrive at a workable patent damages regime. But they illustrate the depth of what would be lost if "damages adequate to compensate for the infringement" is to be cut from whole cloth rather than drawn from established remedial principles. Countless damages puzzles have been posed and resolved in the centuries in which these doctrines have done their work—including the very question presently before the Court. These guiding principles serve as the foundation of the patent damages inquiry, and should be abandoned only in the face of a clear congressional statement to that effect.

CONCLUSION

The error made by the Federal Circuit comes down to fundamental remedial principles, and is not limited to one theory of infringement or another. Although this case comes to the Court after a finding of infringement under § 271(f), the case that began down this path involved the direct infringement provision of § 271(a). *See Power Integrations*, 711 F.3d at 1371-72. And the lower court has since expanded its novel limitation beyond claims of lost profits, invoking *Power Integrations* and the panel opinion in this case to foreclose even reasonable royalties. *See Carnegie Mellon*, 807 F.3d at 1306-07.

Because § 284's damages command applies regardless of the underlying theory of liability, it would be a mistake to leave any ambiguity about the applicability of this Court's ruling to other provisions of § 271. Rather, the Federal Circuit should be reversed on grounds broad enough to put an end to that court's improper curtailing of common law damages doctrines. Just as a "major departure from the long tradition of equity practice should not be lightly implied," *see eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 391 (2006) (internal quotation marks omitted), neither should a major departure from traditional damages principles.

Dated: March 1, 2018

Respectfully submitted,

STEPHEN YELDERMAN
UNIVERSITY OF NOTRE DAME
LAW SCHOOL
Eck Hall of Law
Notre Dame, IN 46556
(574) 631-2264

RACHEL C. HUGHEY
Counsel of Record
MERCHANT & GOULD P.C.
3200 IDS Center
80 South Eighth Street
Minneapolis, MN 44502
(612) 336-4688
rhughey@merchantgould.com

Counsel for Amicus Curiae

No. 16-1011

IN THE
Supreme Court of the United States

WESTERNGECO LLC,
Petitioner,

v.

ION GEOPHYSICAL CORPORATION,
Respondent.

On a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

---

BRIEF OF *AMICUS CURIAE* NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF NEITHER PARTY

ANNEMARIE HASSETT
President, NYIPLA
NYU SCHOOL OF LAW
WILF HALL 408
139 MACDOUGAL STREET
NEW YORK, NY 10012

ROBERT J. RANDO
THE RANDO LAW FIRM P.C.
6800 Jericho Turnpike
Suite 120W
Syosset, NY 11791

IRENA ROYZMAN
Counsel of Record
Board Liaison, Committee on Amicus Briefs, NYIPLA
JORDAN M. ENGELHARDT
JONATHAN D. SCHENKER
PATTERSON BELKNAP
WEBB & TYLER LLP
1133 Avenue of the Americas
New York, NY 10036
(212) 336-2000
iroyzman@pbwt.com

Attorneys for Amicus Curiae
New York Intellectual Property Law Association

TABLE OF CONTENTS

Page

INTEREST OF AMICUS CURIAE 1

SUMMARY OF THE ARGUMENT 3

ARGUMENT 6

I. Prevailing Patentees May Recover Foreign Damages Proximately Caused by Domestic Infringement 6

A. Section 284 Provides Complete Compensation for Damages Proximately Caused by Infringement 6

B. A Bar to Recovery of Foreign Damages Is at Odds with Settled Precedent 9

C. *Power Integrations* Does Not Bar Foreign Damages Attributable to Domestic Infringement 12

II. The Presumption against Extraterritoriality Does Not Bar Recovery of Foreign Damages Accrued due to Domestic Infringement 14

A. The Presumption Against Extraterritoriality Does Not Apply to Section 284 15

B. *Microsoft* Uses the Presumption in Accordance with This Court's Settled Precedent 20

C. Providing Compensation for Patent Infringement Is An Appropriate Domestic Application of Section 284 23

CONCLUSION 24

TABLE OF AUTHORITIES

Page(s)

Cases

Am. Banana Co. v. United Fruit Co.,
213 U.S. 347 (1909) 15, 16, 17

Aro Mfg. Co. v. Convertible Top Replacement Co.,
377 U.S. 476 (1964) 7

Brown v. Duchesne,
60 U.S. 183 (1856) 9, 10

Coupe v. Royer,
155 U.S. 565 (1895) 7

Datascope Corp. v. SMEC, Inc.,
879 F.2d 820 (Fed. Cir. 1989) 11, 12

Dowagiac Mfg. Co. v. Minn. Moline Plow Co.,
235 U.S. 641 (1915) 10

EEOC v. Arabian Am. Oil Co.,
499 U.S. 244 (1991) 19

Foley Bros. v. Filardo,
336 U.S. 281 (1949) 17, 18

Gen. Motors Corp. v. Devex Corp.,
461 U.S. 648 (1983) 3, 6, 7, 8, 24

Goulds' Mfg. Co. v. Cowing,
105 U.S. 253 (1881) 9, 10

Grain Processing Corp. v. Am. Maize-Prods. Co.,
185 F.3d 1341 (Fed. Cir. 1999) 7, 8

TABLE OF AUTHORITIES
(continued)

Page(s)

Halo Elecs., Inc. v. Pulse Elecs., Inc.,
136 S. Ct. 1923 (2016) 5

King Instruments Corp. v. Perego,
65 F.3d 941 (Fed. Cir. 1995) 6, 7, 8

Kiobel v. Royal Dutch Petro. Co.,
569 U.S. 108 (2013) 15, 18

Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc.,
761 F.2d 649 (Fed. Cir. 1985) 11

Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc.,
561 F. Supp. 512 (E.D. La. 1981) 11

Microsoft Corp. v. AT&T Corp.,
550 U.S. 437 (2007) 19, 20, 21, 22

Morrison v. Nat'l Austl. Bank Ltd.,
561 U.S. 247 (2010) 19

Octane Fitness, LLC v. ICON Health & Fitness, Inc., 134 S. Ct. 1749 (2014) 5

Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.,
711 F.3d 1348 (Fed. Cir. 2013) 4, 12, 13

Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.,
589 F. Supp. 2d 505 (D. Del. 2008) 13

R.R. Dynamics, Inc. v. A. Stucki Co.,
727 F.2d 1506 (Fed. Cir. 1984) 10, 11

TABLE OF AUTHORITIES
(continued)

Page(s)

Rite-Hite Corp. v. Kelley Co.,
56 F.3d 1538 (Fed. Cir. 1995) (en banc) 8

RJR Nabisco, Inc. v. European Cmty.,
136 S. Ct. 2090 (2016) 18, 23, 24

Sale v. Haitian Ctrs. Council, Inc.,
509 U.S. 155 (1993) 19

Schneider (Eur.) AF v. Scimed Life Sys.,
1995 U.S. App. LEXIS 9754 (Fed. Cir. Apr. 26, 1995) 11, 12

Smith v. United States,
507 U.S. 197 (1993) 19

United States v. Bowman,
260 U.S. 94 (1922) 16, 17

Yale Lock Mfg. Co. v. *Sargent*,
117 U.S. 536 (1886) 7, 8

Statutes

35 U.S.C. § 271(a) 4

35 U.S.C. § 271(f) ..... *passim*

35 U.S.C. § 284 ..... *passim*

Other Authorities

H. R. Rep. No. 1587, 79th Cong., 2d Sess. (1946) 7

Sup. Ct. R. 37.6 1

INTEREST OF *AMICUS CURIAE*[1]

The New York Intellectual Property Law Association ("NYIPLA") is a bar association of more than 1,100 attorneys who practice in the area of patent, copyright, trademark, and other intellectual property ("IP") law.[2] It is one of the largest regional IP bar associations in the United States. Its members include in-house counsel for businesses and other organizations, and attorneys in private practice who represent both IP owners and their adversaries (many of whom are also IP owners). Its members represent inventors, entrepreneurs, businesses, universities, and industry and trade associations.

The NYIPLA's members and their clients regularly participate in patent litigation on behalf of both plaintiffs and defendants in federal court and in proceedings before the United States Patent and Trademark Office. They also actively engage in licensing matters representing both patent licensors and licensees. The NYIPLA thus brings an informed perspective to the issues presented.

---

[1] Pursuant to Sup. Ct. R. 37.6, the NYIPLA and its counsel represent that they have authored the entirety of this brief, and that no person other than the *amicus curiae* or its counsel has made a monetary contribution to the preparation or submission of this brief.

[2] Consent of all parties has been provided for the NYIPLA to file this brief. Respondent and Petitioner have provided consents to the filing of *amicus curiae* briefs in support of either party or neither party in docket entries dated February 1, 2018 and February 2, 2018, respectively.

The NYIPLA's members and their respective clients have a strong interest in the issues in this case because their day-to-day activities depend on a robust patent system that protects U.S. inventions. At issue here is the recovery of damages that accrue abroad as a result of domestic patent infringement. Congress enacted 35 U.S.C. § 284 to ensure that patent owners receive adequate compensation for damages caused by patent infringement. Section 284 therefore plays an important role in the enforcement of U.S. patents and in protecting innovation. A *per se* bar to recovery under Section 284 of damages that accrue abroad threatens to undercompensate patent owners even when the damages are proximately caused by U.S. patent infringement. The NYIPLA has a particularly strong interest in meaningful and flexible application of the patent laws to protect and foster U.S. innovation across industries.[3]

---

[3] The arguments made in this brief were approved by an absolute majority of the NYIPLA's officers and members of its Board of Directors, but do not necessarily reflect the views of a majority of the members of the Association or of the law or corporate firms with which those members are associated. After reasonable investigation, the NYIPLA believes that no officer, director, or member of the Amicus Briefs Committee who voted in favor of filing this brief, nor any attorney associated with any such officer, director, or committee member in any law or corporate firm, represents a party to this litigation. Some officers, directors, committee members, or associated attorneys may represent entities, including other *amici curiae*, which have an interest in other matters that may be affected by the outcome of this litigation.

SUMMARY OF THE ARGUMENT

The patent damages statute provides prevailing patentees with adequate compensation for damages proximately caused by patent infringement. Specifically, Section 284 provides that "[u]pon finding for the claimant, the court shall award the claimant damages adequate to compensate for the infringement." 35 U.S.C. § 284. This Court has held that damages "adequate to compensate" means "complete compensation" for the infringement. *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655 (1983).

In certain cases, patentees may suffer damages abroad as a result of domestic patent infringement. For example, the infringer may make infringing products domestically but sell them in an overseas market, thereby taking profits from the patentee. Or the infringer may sell infringing systems in the U.S. for use in an overseas services market in competition with the patentee. Whatever the nature of the particular market, Section 284 affords complete compensation to the patentee for damages that are proximately caused by domestic infringement.

This Court and the Federal Circuit have held that damages accrued overseas as a result of domestic patent infringement may be recovered. In this case, however, the Federal Circuit panel majority adopted a bright-line rule against "recovery of foreign profits" by prevailing patentees. Pet. App. 45a. Although the Federal Circuit affirmed that Ion Geophysical Corporation was liable for domestic patent infringement under 35 U.S.C. § 271(f), in addressing the question of damages, the panel majority set aside

the jury's lost-profits award to WesternGeco LLC solely based on the foreign nature of the would-be sales.[4] Pet. App. 44a-45a.

The panel majority reasoned that awarding damages accrued overseas would violate the presumption against extraterritorial application of U.S. law. *See* Pet. App. 41a-45a. The majority also relied on a Federal Circuit decision involving infringement under 35 U.S.C. § 271(a) to hold that "[j]ust as the United States seller or exporter of a final product cannot be liable for use abroad, so too the United States exporter of the component parts cannot be liable for use of the infringing article abroad." *Id.* at 45a; *see also id.* at 44a (citing *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348, 1371-72 (Fed. Cir. 2013), *cert. denied*, 134 S. Ct. 900 (2014)). The panel majority's decision adopts a *per se* bar to recovery of damages accrued abroad and precludes compensation for foreign damages even if proximately caused by U.S. infringement.

The Federal Circuit's bar to recovery of foreign patent damages is at odds with Section 284 and this Court's well-settled precedent on compensating patent owners for damages that result from domestic infringement. The bar also finds no support in the presumption against extraterritorial application of

---

[4] The NYIPLA takes no position on whether the damages claimed by WesternGeco are recoverable in this case. It only advocates for a rule that prevailing patentees may recover damages accrued abroad if proximately caused by domestic patent infringement.

U.S. law. The presumption is a canon of construction used in determining whether a given statute regulates conduct and transactions that occur broad. The question before the Court in this case is not the geographic scope of conduct regulated by any statute, but of damages accruing from an infringer's *domestic* conduct.

Indeed, this Court has never invoked the presumption to bar the recovery of damages accrued abroad as a result of a domestic violation. Since Section 284 applies only where a domestic legal violation has been established, the presumption is entirely inapplicable.

As Judge Wallach observed in his dissent, the panel majority's "rigid rule barring the district court from considering foreign lost profits even when those lost profits have a sufficient relationship to domestic infringement improperly cabins [the court's] discretion, encourages market inefficiency, and threatens to deprive plaintiffs of deserved compensation." Pet. App. 22a. Like other Federal Circuit rules overturned by this Court, the majority's bar on foreign damages "'is unduly rigid, and it impermissibly encumbers the statutory grant of discretion to the district courts.'" *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1932 (2016) (quoting *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1755 (2014)).

For these reasons and those discussed below, this Court should overturn the Federal Circuit's *per se* bar to the recovery of foreign lost profits.

ARGUMENT

I. Prevailing Patentees May Recover Foreign Damages Proximately Caused by Domestic Infringement

By holding that prevailing patentees cannot recover damages accrued abroad, the Federal Circuit lost sight of the core compensatory purpose of Section 284 and the underlying common law standard for assessing damages, proximate causation. In place of proximate causation, the majority's decision introduces a rigid and arbitrary rule prohibiting the recovery of foreign lost profits. This Court should overturn the panel majority's *per se* bar and allow the fact finder to consider whether the damages are proximately caused by domestic infringement and therefore to determine whether they are recoverable on the facts of each case.

A. Section 284 Provides Complete Compensation for Damages Proximately Caused by Infringement

Under Section 284, a prevailing patentee is entitled to recover "damages adequate to compensate for the infringement." 35 U.S.C. § 284. "Congress' overriding purpose" in enacting Section 284 was "affording patent owners *complete compensation*" for domestic infringement. *Gen. Motors*, 461 U.S. at 655 (emphasis added). The principle of complete compensation for patent infringement gives effect to the patentee's right to exclude and to the incentive provided by the Patent Act for innovation. *See King Instruments Corp. v. Perego*, 65 F.3d 941, 949 (Fed. Cir. 1995). Section 284 protects these interests by

"deterring infringers and recouping market value lost when deterrence fails." *Id.* at 950.

Compensatory damages recoverable under Section 284 include "any damages the complainant can prove," consistent with common law principles of proximate causation. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 505-06 (1964) (plurality opinion) (quoting H. R. Rep. No. 1587, 79th Cong., 2d Sess. (1946)). This Court's precedents establish that Section 284 is intended to restore the patent owner to "as good a position as he would have in" absent the patent infringement. *See Gen. Motors*, 461 U.S. at 655; *Aro*, 377 U.S. at 507; *Coupe v. Royer*, 155 U.S. 565, 582 (1895); *Yale Lock Mfg. Co.* v. *Sargent*, 117 U.S. 536, 552 (1886). A patent owner is entitled to recover "'the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred.'" *Aro*, 377 at 507 (quoting *Yale Lock*, 117 U.S. at 552). To recover lost profits, "the patent owner must show 'causation in fact,' establishing that 'but for' the infringement, he would have made additional profits." *Grain Processing Corp. v. Am. Maize-Prods. Co.*, 185 F.3d 1341, 1349 (Fed. Cir. 1999) (citing *King Instruments*, 65 F.3d at 952).

Neither Section 284 nor the principles of proximate causation provide support for a categorical rule prohibiting the recovery of damages that accrue overseas. To the contrary, they require a case-specific damages analysis. As this Court recognized over a century ago, if "the difference between [the patentee's] pecuniary condition after the

infringement, and what his condition would have been if the infringement had not occurred . . . can be ascertained by proper and satisfactory evidence, it is a proper measure of damages." *Yale Lock*, 117 U.S. at 552-53. "*Section 284 imposes no limitation on the types of harm resulting from infringement that the statute will redress.* The section's broad language awards damages for any injury as long as it resulted from the infringement." *King Instruments*, 65 F.3d at 947 (emphasis added).

Indeed, "[u]nder the patent statute, damages should be awarded 'where necessary to afford the plaintiff full compensation for the infringement.' Thus, to refuse to award reasonably foreseeable damages necessary to make [the patentee] whole would be inconsistent with the meaning of § 284." *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995) (en banc) (quoting *Gen. Motors*, 462 U.S. at 654). Given "sound economic proof of the nature of the market," Section 284 provides "significant latitude to prove and recover lost profits for a wide variety of foreseeable economic effects of the infringement." *Grain Processing*, 185 F.3d at 1350.

By adopting a bar to the recovery of patent infringement damages accrued abroad, the Federal Circuit panel majority lost sight of Section 284, and its compensatory purpose. In fact, the majority did not make a single reference to Section 284 in its damages decision, much less address whether the damages accrued abroad were proximately caused by domestic infringement. *See generally* Pet. App. 40a-48a. "Rather than grapple with this difficult question

of proximity, the majority avoid[ed] it altogether." *Id.* at 16a (Wallach, J., dissenting in part).

B. A Bar to Recovery of Foreign Damages Is at Odds with Settled Precedent

The panel majority's bar to the recovery of foreign lost profits also is at odds with this Court's precedent and the Federal Circuit's own precedent.

This Court's cases involving damages accrued abroad for domestic patent infringement show that such damages are recoverable. In *Brown v. Duchesne*, the Court denied compensation to a patent owner whose invention was installed on a foreign vessel abroad before the vessel entered the United States. 60 U.S. 183, 195-96 (1856). The Court explained that use of the patented invention outside of the Unites States was not an infringement. *Id.* The Court observed, however, that the outcome would have been different if the device at issue had been "manufactured on the [vessel's] deck while she was lying in the port of Boston, or if the captain had sold it there." *Id.* at 196. If that were the case, the defendant "would undoubtedly have trespassed upon the rights of the plaintiff, and would have been justly answerable for the profit and advantage he thereby obtained." *Id.* This is so even though "[t]he chief and almost only advantage which [the defendant] derived from the use of [the invention] was on the high seas, and in other places out of the jurisdiction of the United States." *Id.* at 196.

Then, in *Goulds' Manufacturing Co. v. Cowing*, this Court held that a patent owner was entitled to recover profits from an infringer's domestic and

foreign sales. 105 U.S. 253 (1881). The Court remanded the case with instructions to award damages calculated based on the infringer's sales in Pennsylvania and Canada, without distinguishing between the domestic and foreign sales. *Id.* at 256, 258.

In *Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.*, the Court reaffirmed the holding of *Goulds'*, explaining that damages for sales in Canada were appropriately awarded because "the defendant made the infringing articles in the United States." 235 U.S. 641, 650 (1915). In *Dowagiac*, by contrast, the articles sold abroad were also manufactured outside the United States and therefore were not subject to a damages award. *Id.*

Duchesne, *Goulds'*, and *Dowagiac* thus all support the recovery of foreign damages caused by U.S. patent infringement. The panel majority's *per se* bar to recovery of such damages is particularly perplexing given its recognition that this Court's precedents "suggest that profits for foreign sales of the patented items themselves are recoverable when the items in question were manufactured in the United States and sold to foreign buyers by the U.S. manufacturer." Pet. App. 46a.

The panel majority's decision is also at odds with its own well-settled precedent. For example, in *Railroad Dynamics, Inc. v. A. Stucki Co.*, the Federal Circuit upheld a damages award calculated on the basis of the defendant's sales of infringing "carsets" "to foreign customers for installation in truck assemblies in foreign countries." 727 F.2d 1506, 1519 (Fed. Cir. 1984). The Federal Circuit rejected the

defendant's challenge to the damages award, holding that "[w]hen it made the 1,671 carsets in this country, it infringed claim 10. *Whether those carsets were sold in the U.S. or elsewhere is therefore irrelevant*, and no error occurred in including those carsets among the infringing products on which royalty was due." *Id.* (emphasis added).

In *Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc.*, the Federal Circuit upheld a damages award "on the basis of profits lost because of defendants' sales of infringing units *for use outside the United States* and profits lost on rental of infringing units within the United States." 761 F.2d 649, 652 (Fed. Cir. 1985) (emphasis added), *cert. denied*, 474 U.S. 902 (1985). Just as in *Railroad Dynamics*, the infringing products in *Kori* were manufactured domestically. *See Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc.*, 561 F. Supp. 512, 519 (E.D. La. 1981), *aff'd*, 761 F.2d 649 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 902 (1985).

In *Schneider (Eur.) AF v. Scimed Life Systems*, the Federal Circuit stated that "[w]e are aware of no rule that a plaintiff cannot recover lost profits for foreign sales of infringing products manufactured in the United States." 1995 U.S. App. LEXIS 9754, at *9 (Fed. Cir. Apr. 26, 1995) (unpublished). The *Schneider* court identified *Datascope Corp. v. SMEC, Inc.*, 879 F.2d 820, 824-27 (Fed. Cir. 1989), as supplying the appropriate test "to determine whether a plaintiff could recover lost profits for the infringer's foreign sales of infringing products manufactured in the United States." 1995 U.S. App. LEXIS 9754, at *9. In *Datascope*, the Federal Circuit denied lost

profits for foreign sales, not because they accrued abroad, but because the patentee failed to prove that it could have captured the foreign sales absent infringement. *See* 879 F.2d at 826-27. The *Datascope* court went on to affirm the district court's award of a reasonable royalty on the infringer's foreign sales. *Id.* at 827.

In *Schneider*, the Federal Circuit observed that, although the criteria for a lost profits award were not met in *Datascope*, "it would have been completely unnecessary to consider this test if that plaintiff had been prevented from recovering lost profits in the first instance." 1995 U.S. App. LEXIS 9754, at *9 (citing *Datascope*, 879 F.2d at 827).

A *per se* bar to recovery of foreign lost profits proximately caused by domestic patent infringement is a departure from this Court's and the Federal Circuit's own precedent.

C. *Power Integrations* Does Not Bar Foreign Damages Attributable to Domestic Infringement

The panel majority relied on the Federal Circuit's *Power Integrations* decision in establishing its *per se* bar to recovery of damages accrued abroad for U.S. patent infringement. *See* Pet. App. 43a-45a. By basing its damages decision on *Power Integrations*, the Federal Circuit improperly extended a fact-specific holding into a bright-line rule.

In *Power Integrations*, the Federal Circuit upheld a district court's decision denying damages on a defendant's worldwide sales. 711 F.3d at 1372. The

holding was based, not on a doctrinal prohibition against foreign damages, but on a finding that the patentee failed to establish a causal link between the defendant's foreign sales and the infringing activity in the United States. The Federal Circuit found that the patentee's damages estimate "was not rooted in [the defendant's] activity in the United States." *Id.* (internal quotation omitted).

Indeed, the district court decision in that case reflects that damages for worldwide sales were denied due to a failure of proof: "[The patentee's] estimate of $30 million in damages was not related to parts that were manufactured, used, or sold in the United States by [the infringer], and was not based on parts that were imported into the United States by [the infringer] or anyone else." 589 F. Supp. 2d 505, 511 (D. Del. 2008), *vacated on other grounds by* 711 F.3d 1348 (Fed. Cir. 2013).

On that record, the Federal Circuit found no basis to "award [] damages for sales consummated in foreign markets, regardless of any connection to infringing activity in the United States." 711 F.3d at 1371. As Judge Wallach observed in his dissent, "the court in *Power Integrations* was clearly concerned with the sufficiency of the connection between the foreign activity and the domestic infringement." Pet. App. 65a-66a. The panel majority erred by expanding this fact-specific holding into a *per se* rule that prevailing patentees cannot recover "foreign profits" caused by domestic patent infringement. Pet. App. 45a.

II. The Presumption against Extraterritoriality Does Not Bar Recovery of Foreign Damages Accrued due to Domestic Infringement

For its categorical rule barring the recovery of foreign damages attributable to domestic patent infringement, the panel majority relied heavily on the presumption against extraterritorial application of U.S. law. *See* Pet. App. 41a-48a. The majority's use of the presumption is at odds with the presumption's well-established role of providing guidance as to the geographic scope of U.S. law. The presumption is not a vehicle for setting economic policy or for undercompensating prevailing patentees for domestic legal violations.

As discussed below, for over a century this Court has used the presumption against extraterritorial application of U.S. law to determine whether a given statute regulates conduct and transactions that occur abroad. That question is not raised in this case. Here, domestic patent infringement has been proven under Section 271(f) and has been affirmed by the Federal Circuit. At issue in this case are the damages due under Section 284 for that established domestic violation.

In its damages analysis, the Federal Circuit did not mention Section 284, much less apply the presumption against extraterritoriality to Section 284. Indeed, there is no basis to invoke the presumption here. Section 284 only applies upon a finding of domestic infringement and compensates prevailing patentees for damages proximately caused by the domestic violation.

Ignoring Section 284, the panel majority invoked the presumption against extraterritorial application of U.S. laws as a free-floating principle—untethered from the statute at issue—to cut off damages resulting from domestic infringement at the U.S. border. There is no precedent and no basis for applying the presumption against extraterritoriality in this manner.

A. The Presumption Against Extraterritoriality Does Not Apply to Section 284

The presumption against extraterritorial application of law is a canon of construction used to determine whether a given statute is intended by Congress to regulate conduct and transactions that occur abroad. *Kiobel v. Royal Dutch Petro. Co.*, 569 U.S. 108, 116 (2013) ("We typically apply the presumption to discern whether an Act of Congress regulating conduct applies abroad."). The presumption has no application to damages awards under Section 284 for domestic patent infringement, whether the damages accrue abroad or in the U.S.

This Court discussed the rationale for the presumption against extraterritoriality more than a century ago in *American Banana Co. v. United Fruit Co.*, 213 U.S. 347, 355-58 (1909) (Holmes, J.). The defendant in *American Banana* was accused of anticompetitive behavior consisting primarily of instigating Costa Rican government officials to take actions (including seizing a plantation) that injured the plaintiff's banana business. *Id.* at 354-55. But "the acts causing the damage were done, so far as

appears, outside the jurisdiction of the United States and within that of other states." *Id.* at 355.

The Court explained that "the general and almost universal rule is that the character of an act as lawful or unlawful must be determined wholly by the law of the country where the act is done." *Id.* at 356. It stated that "[f]or another jurisdiction, if it should happen to lay hold of the actor, to treat him according to its own notions rather than those of the place where he did the acts, not only would be unjust, but would be an interference with the authority of another sovereign, contrary to the comity of nations, which the other state concerned justly might resent." *Id.* Accordingly, "in case of doubt," courts should adopt a "construction of any statute as intended to be confined in its operation and effect to the territorial limits over which the lawmaker has general and legitimate power." *Id.* at 357.

This presumption was again discussed in *United States v. Bowman*, 260 U.S. 94 (1922). There, the Court considered the defendants' objection to an indictment charging them with conspiracy to present false claims to the Shipping Board Emergency Fleet Corporation, an entity owned by the United States. *Id.* at 95-96. The defendants argued that because their scheme unfolded on the high seas, it was outside the scope of the relevant U.S. statute, which did not explicitly impose liability for extraterritorial conduct. *Id.* at 96-97. The Court described the issue as "a question of statutory construction," *id.* at 97, and explained that U.S. statutes were presumed only to punish crimes committed in the United States:

> Crimes against private individuals or their property . . . must of course be committed within the territorial jurisdiction of the government where it may properly exercise it. If punishment of them is to be extended to include those committed outside of the strict territorial jurisdiction, it is natural for Congress to say so in the statute, and failure to do so will negative the purpose of Congress in this regard.

Id. at 97-98. Thus, from its beginnings in *American Banana* and *Bowman*, the presumption against extraterritoriality reflected the common sense insight that U.S. statutes only regulate conduct that occurs in the United States absent a Congressional intent to punish acts that occur abroad.

The Court again examined the presumption against extraterritoriality in *Foley Bros. v. Filardo*, 336 U.S. 281, 284-85 (1949). *Foley Bros.* concerned the Eight Hour Law, which provided that "[e]very contract" to which the United States is a party must allow for overtime pay to laborers who work more than eight hours in a day. *Id.* at 282-83. The question presented was whether the reference to "[e]very contract" included contracting projects performed in foreign countries (the plaintiff had served as a cook for a public works project in Iraq and Iran). *Id.* at 283-84. The Court observed that Congress had the *power* to give the law such a scope, but explained that "[t]he canon of construction which teaches that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial

jurisdiction of the United States is a valid approach whereby unexpressed congressional intent may be ascertained." *Id.* at 284-85 (citation omitted). This "canon," said the Court, "is based on the assumption that Congress is primarily concerned with domestic conditions." *Id.* Because the Eight Hour Law contained "no language . . . that gives any indication of a congressional purpose to extend its coverage beyond places over which the United States has sovereignty or has some measure of legislative control," the Court determined that it applied only to contracts for domestic projects. *Id.* at 285; *see also id.* at 286 (expressing skepticism "that Congress intended to regulate the working hours of a citizen of Iran who chanced to be employed on a public work of the United States in that foreign land").

In each of these early cases, the Court used the presumption against extraterritorial application of law to infer the intended geographic scope of the statute at issue. The presumption helped answer the question of whether a given statute governed conduct or transactions that occur outside of the United States.

This Court's more recent cases apply the presumption against extraterritoriality in the same manner. *See, e.g., RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090, 2096, 2100-09 (2016) (applying the presumption to determine "whether RICO applies . . . to events occurring and injuries suffered outside the United States"); *Kiobel*, 569 U.S. at 115 (applying the presumption to determine "whether a claim [under the Alien Tort Statute] may reach conduct occurring in the territory of a foreign

sovereign"); *Morrison v. Nat'l Austl. Bank Ltd.*, 561 U.S. 247, 250-51 (2010) (applying the presumption to determine "whether § 10(b) of the Securities Exchange Act of 1934 provides a cause of action . . . for misconduct in connection with securities traded on foreign exchanges"); *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 441-42, 454-56 (2007) (applying the presumption to determine whether "supply" in Section 271(f) of the Patent Act applies to the supply of components generated abroad); *Sale v. Haitian Ctrs. Council, Inc.*, 509 U.S. 155, 158-59, 173-74 (1993) (applying the presumption to determine whether asylum protection of Immigration and Nationality Act "applies to action taken by the Coast Guard on the high seas"); *Smith v. United States*, 507 U.S. 197, 198, 203-04 (1993) (applying the presumption to determine whether FTCA waiver of sovereign immunity "applies to tortious acts or omissions occurring in Antarctica"); *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 246, 248-49 (1991) (applying the presumption to determine "whether Title VII applies extraterritorially to regulate the employment practices of United States employers who employ United States citizens abroad").

Thus, when this Court has invoked the presumption against extraterritoriality, it has consistently done so to determine the applicability of U.S. laws to conduct and transactions that occur abroad. This Court has never used the presumption as a means of preventing redress for established domestic legal violations.

B. *Microsoft* Uses the Presumption in Accordance with This Court's Settled Precedent

The Federal Circuit panel majority relied on this Court's decision in *Microsoft* as support for its use of the presumption against extraterritoriality as a *per se* bar to recovery of damages accrued abroad. *See* Pet. App. 41a, 42a, 44a, 47a. The majority, quoting *Microsoft*, stressed that "[t]he presumption that United States law governs domestically but does not rule the world applies with particular force in patent law." *Id.* at 41a (quoting 550 U.S. at 454-55).

Microsoft, just as this Court's prior century of precedents discussing the presumption against extraterritoriality, used the presumption as a canon of statutory construction. It held that there was no intent to create liability under Section 271(f) for exporting instructions to make components abroad when Section 271(f) expressly requires supply of the components themselves. *See* 550 U.S. at 441-42.

In *Microsoft*, the defendant software maker (Microsoft) conceded that it had dispatched master copies of its Windows operating system to foreign computer manufacturers and that, by installing Windows onto their computers, the manufacturers created devices that in the United States would have infringed AT&T's patent. *Id.* at 441-42, 445-47. The Court confronted two interpretive questions about the application of Section 271(f)[5] to Microsoft's

[5] The decision simply refers to Section 271(f) since the distinctions between the two paragraphs of Section 271(f) were not "outcome determinative." *Id.* at 447 n.7.

conduct: first, whether Windows was a "component" under Section 271(f), and second, whether Microsoft had "supplied" a component of the foreign-made computers "from the United States." *Id.* at 447.

As to the first question, the Court found that "software detached from an activating medium" is "uncombinable" in the context of a computer. *Id.* at 449. The Court concluded that, since the statute contemplates "'components' [that are] amenable to 'combination,'" *id.*, Windows can only be a "component" of a computer when reduced to a physical, deliverable copy capable of being "performed by a computer." *Id.* at 451-52. It held that Windows "in the abstract" is not a "component" of a computer but rather a set of "instructions" to which Section 271(f) does not apply. *Id.*

This holding informed the Court's resolution of the second question. Microsoft had not "supplied" the individual copies of Windows that were installed on the foreign-made computers. *Id.* at 452. "Indeed, those copies did not exist until they were generated by third parties outside the United States." *Id.* at 454. Accordingly, the software "components" of the offending devices were neither "supplie[d]" by Microsoft nor "supplie[d] . . . from the United States." *Id.* at 453-54. Microsoft had exported only the instructions for components that were then generated abroad. *Id.* at 451, 458.

The Court explained that the presumption against extraterritorial application of U.S. law reinforced its conclusion "that Microsoft's conduct falls outside § 271(f)'s compass." *Id.* at 454. This was for a simple reason: the components were generated

and combined abroad. None was made in or supplied from the United States. A different interpretation of "supply," *i.e.*, one that encompassed supplying instructions from the United States rather than the components themselves, would have swept into Section 271(f)'s purview the acts of duplication and installation that took place abroad. Instead, this Court concluded that "*foreign law alone*, not United States law, *currently governs the manufacture and sale of components of patented inventions in foreign countries*." *Id.* at 456 (emphasis added).

In *Microsoft*, the presumption supported the construction of "supply" in Section 271(f) as not encompassing supply of components generated outside the United States, as Congress ordinarily does not intend to regulate conduct that occurs in the territory of another sovereign and the express language of Section 271(f) requires supply of some components "from the United States." *Id.* at 454 (quoting 35 U.S.C. § 271(f)(1)).

In contrast to *Microsoft*, the question presented here does not implicate the location of regulated conduct. Liability for domestic patent infringement is established here, and the only question is whether the full compensation required under Section 284 includes damages proximately caused by the domestic infringement even if they accrue abroad. *Microsoft* and the presumption against extraterritoriality therefore have no application in this case.

C. Providing Compensation for Patent Infringement Is An Appropriate Domestic Application of Section 284

Even if the presumption against extraterritoriality were applied to the damages question, awarding damages accrued abroad due to domestic patent infringement is an appropriate domestic application of Section 284.

This Court has supplied "a two-step framework for analyzing extraterritoriality issues." *RJR Nabisco*, 136 S. Ct. at 2101 (citations omitted). At the first step, a court reviews whether the statute at issue rebuts the presumption with "a clear, affirmative indication that it applies extraterritorially." *Id.* If not, "then at the second step [the court] determine[s] whether the case involves a domestic application of the statute, and [does] this by looking to the statute's 'focus.'" *Id.* "If the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application even if other conduct occurred abroad." *Id.*[6]

Even if the *RJR Nabisco* framework were applied in this case, it would be applied to Section 284. Section 284 states that, "upon finding for the claimant, the court shall award the claimant damages adequate to compensate for the infringement." 35 U.S.C. § 284. Section 284 applies only where a domestic legal violation has been

---

[6] Courts may start the analysis at step two in appropriate cases. *RJR Nabisco*, 136 S. Ct. at 2101 n.5.

established. The "focus" of Section 284 is providing full compensation to prevailing patentees "for the infringement," which necessarily entails domestic conduct. 35 U.S.C. §§ 271, 284; *RJR Nabisco* 136 S. Ct. at 2101; *Gen. Motors*, 461 U.S. at 654-55.

Because the "focus" of Section 284 is making the patentee whole for domestic patent infringement, compensating a prevailing patentee under Section 284 "involves a permissible domestic application even if other conduct occurred abroad." *RJR Nabisco*, 136 S. Ct. at 2101. Indeed, where a patentee establishes that domestic infringement proximately caused damages abroad, the "other conduct occur[ing] abroad," *id.*, is simply the measure of "damages adequate to compensate for the [domestic] infringement." 35 U.S.C. § 284.

As a result, even if the framework of *RJR Nabisco* is applied to Section 284, the presumption against extraterritoriality does not bar recovery of damages accrued abroad resulting from domestic infringement. Recovery of such damages is a proper domestic application of Section 284.

CONCLUSION

For the foregoing reasons, this Court should reverse the Federal Circuit's *per se* bar against recovering foreign lost profits.

February 27, 2018

Respectfully submitted,

ANNEMARIE HASSETT
President, NYIPLA
NYU SCHOOL OF LAW
WILF HALL 408
139 MACDOUGAL STREET
NEW YORK, NY 10012

ROBERT J. RANDO
THE RANDO LAW FIRM P.C.
6800 Jericho Turnpike
Suite 120W
Syosset, NY 11791

IRENA ROYZMAN
Counsel of Record
Board Liaison, Committee on Amicus Briefs, NYIPLA
JORDAN M. ENGELHARDT
JONATHAN D. SCHENKER
PATTERSON BELKNAP
WEBB & TYLER LLP
1133 Avenue of the Americas
New York, NY 10036
(212) 336-2000
iroyzman@pbwt.com

Attorneys for Amicus Curiae
New York Intellectual Property Law Association

No. 16-1011

In The
Supreme Court of the United States

WESTERNGECO LLC,

Petitioner,

v.

ION GEOPHYSICAL CORPORATION,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF FOR POWER INTEGRATIONS, INC. AS AMICUS CURIAE IN SUPPORT OF PETITIONER

ALEXANDRA A.E. SHAPIRO
Counsel of Record
PHILIP W. YOUNG
SHAPIRO ARATO LLP
500 Fifth Avenue
40th Floor
New York, NY 10110
(212) 257-4380
ashapiro@shapiroarato.com
Counsel for Amicus Curiae Power Integrations, Inc.

TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES iii

INTERESTS OF AMICUS CURIAE 1

SUMMARY OF THE ARGUMENT 2

ARGUMENT 4

THE FEDERAL CIRCUIT'S CATEGORICAL RULE BARRING DAMAGES BASED ON FOREIGN SALES UNDER § 284 IS INCONSISTENT WITH THIS COURT'S PRECEDENT AND BASIC PRINCIPLES OF SUPERSEDING CAUSATION 4

A. The Federal Circuit's Categorical Rule Barring Recovery of Damages for Foreign Sales is Inconsistent with this Court's Precedent on Superseding Causation 7

B. The Federal Circuit's Categorical Rule Barring Recovery of Damages for Foreign Sales Also Contravenes *Goulds*, *Dowagiac*, and its Own Precedent 13

C. Non-Infringement Often Can Be Relevant to the Calculation of Damages under § 284 and the Determination of Liability under § 271 15

TABLE OF CONTENTS
(continued)

Page

CONCLUSION 21

TABLE OF AUTHORITIES

Page(s)

CASES

Amstar Corp. v. Envirotech Corp.,
823 F.2d 1538 (Fed. Cir. 1987) 15

Archer v. Warner,
538 U.S. 314 (2003) 8

Datascope Corp. v. SMEC, Inc.,
879 F.2d 820 (Fed. Cir. 1989) 15

Dowagiac Mfg. Co. v. Minn. Moline Plow Co.,
235 U.S. 641 (1915) 3, 13, 14, 15

Exxon Co., U.S.A. v. Sofec, Inc.,
517 U.S. 830 (1996) 8, 9, 10

Fisher v. Lufkin Indus., Inc.,
847 F.3d 752 (5th Cir. 2017) 9

Goulds' Mfg. Co. v. Cowing,
105 U.S. 253 (1881) 3, 4, 13, 15

Lee by Lee v. United States,
124 F.3d 1291 (Fed. Cir. 1997) 9

Lexmark Int'l, Inc. v. Static Control Components, Inc.,
134 S. Ct. 1377 (2014) 7

McKenna v. City of Philadelphia,
649 F.3d 171 (3d Cir. 2011) 10

TABLE OF AUTHORITIES
(continued)

Page(s)

Merial Ltd. v. Cipla Ltd.,
681 F.3d 1283 (Fed. Cir. 2012) 18

Minco, Inc. v. Combustion Eng'g, Inc.,
95 F.3d 1109 (Fed. Cir. 1996) 16

NTP, Inc. v. Research In Motion, Ltd.,
418 F.3d 1282 (Fed. Cir. 2005) 19

Nycal Offshore Dev. Corp. v. United States,
743 F.3d 837 (Fed. Cir. 2014) 9

Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.,
711 F.3d 1348 (Fed. Cir. 2013) ..... *passim*

R.R. Dynamics, Inc. v. A. Stucki Co.,
727 F.2d 1506 (Fed. Cir. 1984) 5, 12, 15

Rite-Hite Corp. v. Kelley Co., Inc.,
56 F.3d 1538 (Fed. Cir. 1995) 16

Schillinger v. *United States*,
155 U.S. 163 (1894) 7

Schneider (Eur.) AG v. Scimed Life Sys., Inc.,
Nos. 94-1317, -1410, -1456, 1995 WL 375949
(Fed. Cir. Apr. 26, 1995) 15

Staub v. *Proctor Hosp.*,
562 U.S. 411 (2011) 8, 9

TABLE OF AUTHORITIES
(continued)

Page(s)

Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.,
617 F.3d 1296 (Fed. Cir. 2010) 18

Versata Software, Inc., v. SAP Am., Inc.,
717 F.3d 1255 (Fed. Cir. 2013) 17

VirnetX, Inc. v. Cisco Sys., Inc.,
767 F.3d 1308 (Fed. Cir. 2014) 17

Warsaw Orthopedic, Inc. v. NuVasive, Inc.,
778 F.3d 1365 (Fed. Cir. 2015) 17

STATUTES AND REGULATIONS

35 U.S.C. § 271 ..... 3, 15, 18, 19

35 U.S.C. § 284 ..... *passim*

SECONDARY SOURCES

1 T. Schoenbaum, Admiralty and Maritime Law
§ 5-3 (2d ed. 1994) 9

Restatement (Second) of Torts § 440 (1965) 7

Restatement (Second) of Torts § 442 (1965) 10

INTERESTS OF AMICUS CURIAE

Amicus Power Integrations, Inc. ("Power Integrations") is an American company based in San Jose California, and a top innovator in the high-voltage power conversion market.[1] It has built a portfolio of patented products designed to make power converters smaller, simpler, more reliable, easier to design and manufacture, and more energy-efficient. To develop these products, Power Integrations spends significant time and money investing in the research and development of new power conversion technologies. It often sells its patented products to other companies that embed the technologies in end-user products like televisions, LED lights, and power supplies for cellular phones. Power Integrations relies on the U.S. patent system to protect its investment in the development of its intellectual property and fund the next wave of innovation.

Power Integrations has a profound interest in the outcome of petitioner's challenge to the Federal Circuit's decision, which is based in part on its categorical rule barring the consideration of lost foreign sales caused by domestic patent infringement when calculating damages under 35 U.S.C. § 284. Power Integrations was itself the petitioner in a similar case in which the Federal Circuit declined to reinstate a jury's $34 million damages award on the

[1] The parties have consented to the filing of this amicus brief. No counsel for a party authored this brief in whole or in part, and no party, counsel for a party, or any other person except for amicus curiae made a monetary contribution intended to fund its preparation or submission.

basis of the same flawed reasoning it used in this case. *See Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348, 1371-72 (Fed. Cir. 2013), *cert. denied*, 134 S. Ct. 900 (2014).

The Federal Circuit's holding in both of these cases will make it more difficult to deter patent infringement in the future and will increase the likelihood that unscrupulous copy-cats will be able to piggy-back off of Power Integrations' hard-earned intellectual property, rather than researching and innovating themselves. Precluding damages for foreign sales that are plainly connected to domestic infringement will reduce the incentive for companies to innovate and will only encourage further infringement. As Judge Wallach concisely explained in his post-remand dissent, "[a]n unduly rigid rule barring the district court from considering foreign lost profits even when those lost profits bear a sufficient relationship to domestic infringement improperly cabins [a court's] discretion, encourages market inefficiency, and threatens to deprive plaintiffs of deserved compensation in appropriate cases." Pet.App.22a.

SUMMARY OF THE ARGUMENT

As petitioner persuasively argues, the Federal Circuit erred in this case by holding that the presumption against extraterritoriality precludes a damages award for domestic infringement calculated by reference to foreign lost profits. Instead, traditional principles of proximate causation—including the doctrine of superseding causation—

serve to limit the damages available for patent infringement. Although petitioner focuses specifically on the Federal Circuit's errors with respect to damages and extraterritoriality in the context of 35 U.S.C. § 271(f), the court also erred by fundamentally misconstruing the doctrine of superseding causation—an error that has implications for all forms of patent infringement under § 271. It held that damages for lost foreign sales were categorically unavailable under § 284 because the "entirely extraterritorial . . . sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement." Pet.App.43a. That holding is at odds with long-standing principles of proximate causation.

First, the Federal Circuit's holding is inconsistent with this Court's precedents defining a later-in-time action as a superseding cause only where the later cause was (1) of independent origin from the earlier misconduct; and (2) not foreseeable. The Federal Circuit has long-recognized the importance of independence and foreseeability in the superseding cause analysis, and its holding in this case is a departure from its own precedent.

Second, the Federal Circuit's superseding cause holding creates a categorical bar on the recovery of lost foreign sales, which cannot be reconciled with this Court's decisions in *Goulds' Manufacturing Company v. Cowing* and *Dowagiac Manufacturing Company v. Minnesota Moline Plow*

Company. Both cases recognize that non-infringing foreign sales can be used to calculate lost profits where the patented product is manufactured in the United States.

Finally, the Federal Circuit's treatment of non-infringing foreign sales as a superseding cause is inconsistent with a long line of cases making clear that non-infringing conduct should often be considered when calculating damages and even when determining liability for domestic infringement.

This Court should reverse the judgment below and reject the Federal Circuit's categorical bar on the use of lost foreign sales to calculate damages for patent infringement.

ARGUMENT

THE FEDERAL CIRCUIT'S CATEGORICAL RULE BARRING DAMAGES BASED ON FOREIGN SALES UNDER § 284 IS INCONSISTENT WITH THIS COURT'S PRECEDENT AND BASIC PRINCIPLES OF SUPERSEDING CAUSATION

For well over a century, federal courts adjudicating patent disputes have understood that where liability for domestic infringement has been established, a patentee is entitled to recover as damages lost profits from foreign sales—as long as those foreign sales were a direct and foreseeable result of the domestic infringement. *See, e.g.*, *Goulds' Mfg. Co. v. Cowing*, 105 U.S. 253, 256 (1881)

(affirming damages award based on foreign sales of patented products manufactured in the United States); *R.R. Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1519 (Fed. Cir. 1984).

But in two recent cases, the Federal Circuit jettisoned these long-standing principles in favor of a virtually categorical bar on the recovery of damages that arise abroad but are proximately caused by domestic infringement. First, in *Power Integrations, Inc. v. Fairchild Semiconductor International, Inc.*, the Federal Circuit refused to reinstate a damages award that was based, in part, on foreign sales of controller chips that were connected to certain acts of domestic infringement. 711 F.3d 1348, 1371-72 (Fed. Cir. 2013). The court stated: "Power Integrations is incorrect that, having established one or more acts of direct infringement in the United States, it may recover damages for Fairchild's worldwide sales of the patented invention because those foreign sales were the direct, foreseeable result of Fairchild's domestic infringement." *Id.* at 1371. Instead, "the entirely extraterritorial production, use, *or sale* of an invention patented in the United States is an *independent, intervening act* that, under almost all circumstances, *cuts off the chain of causation* initiated by an act of domestic infringement." *Id.* at 1371-72 (emphasis added).

In other words, the Federal Circuit was making the extraordinary claim that *any* foreign act of (1) production, (2) use, or (3) sale of the patented product is presumed to be a superseding cause that severs the causal link between the infringing conduct and the

patentee's injury. The court was unable to cite any authority directly supporting this claim, because there is none.

Just two years later, in this case, the Federal Circuit doubled down on its error, and reaffirmed its erroneous categorical bar on the recovery of damages for foreign sales. The court again rejected a damages award based, in part, on lost foreign profits proximately connected to domestic infringement. "Rather than grapple with this difficult question of proximity, the majority avoid[ed] it altogether." Pet.App.16a (Wallach, J., dissenting). Instead, it reiterated its misguided ruling in *Power Integrations*, based on the erroneous premise that because the U.S. patent laws do not bar foreign infringement, a U.S. patentholder can never recover damages "for a defendant's foreign exploitation of a patented invention," regardless of whether there is any connection between that (non-infringing) foreign exploitation and the domestic infringement. Pet.App.43a (quoting *Power Integrations*, 711 F.3d at 1371). The court expressly reaffirmed its unsupported superseding causation holding in *Power Integrations*: "[T]he entirely extraterritorial production, use, or sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement." *Id.* (quoting *Power Integrations*, 711 F.3d at 1371-72).

The Federal Circuit's misguided interpretation of the doctrine of superseding causation finds no

support in this Court's precedent. Indeed, the dissent expressed concern with the sweeping nature of the majority's holding, arguing that "[i]f the statement is read too broadly, . . . it conflicts with Supreme Court precedent holding that ordinary sales abroad can in some cases be used to measure damages resulting from domestic infringement." Pet.App.17a (Wallach, J., dissenting). Contrary to the majority's approach, foreign sales of a U.S.-patented product are a superseding cause that cuts off the chain of causation between the domestic infringement and the patentee's injury only where such foreign sales are wholly independent of the infringing conduct and entirely unforeseeable in view of the domestic infringement.

A. The Federal Circuit's Categorical Rule Barring Recovery of Damages for Foreign Sales is Inconsistent with this Court's Precedent on Superseding Causation

Patent infringement is a federal statutory tort. *Schillinger* v. *United States*, 155 U.S. 163, 169-70 (1894). Damages for patent infringement—just as for any other tort—are limited by traditional principles of proximate causation. *See, e.g.*, *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1390-91 (2014). One of those principles is the doctrine of superseding causation. "A superseding cause is an act of a third person or other force which by its intervention prevents the actor from being liable for harm to another which his antecedent negligence is a substantial factor in bringing about." Restatement

(Second) of Torts § 440 (1965). Put another way, superseding causes are "intervening events" that "are sufficient to sever the causal nexus and cut off all liability." *Archer v. Warner*, 538 U.S. 314, 326 (2003) (Thomas, J., dissenting).

1. The Federal Circuit erroneously invoked the common-law doctrine of superseding causation when it held—as a matter of law—that the "entirely extraterritorial . . . sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement." Pet.App.43a. That holding is inconsistent with this Court's decisions limiting the applicability of superseding causation to cases where the later cause was (1) independent from the earlier misconduct; and (2) not foreseeable. *See Exxon Co., U.S.A. v. Sofec, Inc.*, 517 U.S. 830, 837-38 (1996); *Staub v. Proctor Hosp.*, 562 U.S. 411, 420 (2011).

In *Exxon*, defendants' negligence caused an oil tanker to break away from a mooring system that was holding it in place while it delivered oil to a pipeline. *Exxon*, 517 U.S. at 832-33. Hours after the crew regained control of the vessel and steered it out of danger, the captain's navigational negligence caused the tanker to run aground on a reef, resulting in total loss of the ship and its cargo. *Id.* at 833-34. The district court held that the captain's extraordinary negligence was the superseding and sole proximate cause of the tanker's grounding because the captain's actions were independent of the defendants' negligence and not foreseeable. *Id.* at 835. This Court

rejected Exxon's argument that the doctrine of superseding causation is inapplicable in admiralty proceedings and explained that it applies whenever "the defendant's negligence in fact substantially contributed to the plaintiff's injury, but the injury was actually brought about by a later cause of *independent origin that was not foreseeable*." *Id.* at 837 (quoting 1 T. Schoenbaum, Admiralty and Maritime Law § 5-3, pp. 165-66 (2d ed. 1994)) (emphasis added). The Court reaffirmed this holding in *Staub*. 562 U.S. at 420 ("A cause can be thought 'superseding' only if it is a 'cause of independent origin that was not foreseeable.'").

Indeed, prior to *Power Integrations*, the Federal Circuit's own jurisprudence on superseding causation has generally been consistent with *Exxon's* independence and foreseeability test. *See, e.g., Nycal Offshore Dev. Corp. v. United States*, 743 F.3d 837, 845 (Fed. Cir. 2014) (to prove superseding cause, defendant must show that plaintiff's injury was actually the result of "an *independent act by someone other than the defendant* that has the legal effect of negating the defendant's liability" (emphasis added)); *Lee by Lee v. United States*, 124 F.3d 1291, 1297 (Fed. Cir. 1997) (service member's criminal act of deliberately injuring infant child was superseding cause that cut off chain of causation from his wife's negligence because wife did not foresee that her husband would assault the child when she left child in his care). Other courts of appeals have also analyzed questions of superseding causation under *Exxon* and *Staub*. *See, e.g., Fisher v. Lufkin Indus., Inc.*, 847 F.3d 752, 759 (5th Cir. 2017) (citing *Staub*

and *Exxon* in support of holding that plaintiff's conduct was not superseding cause because it was "entirely foreseeable"); *McKenna v. City of Philadelphia*, 649 F.3d 171, 178 (3d Cir. 2011). The Restatement of Torts likewise emphasizes independence and foreseeability as critical factors to consider in evaluating a superseding causation question. *See* Restatement (Second) of Torts § 442(b) (1965) ("the fact that its operation or the consequences thereof appear after the event to be extraordinary rather than normal . . ."); *id.* § 442(c) ("the fact that the intervening force is operating independently of any situation created by the actor's negligence . . .").

2. The Federal Circuit's holding in this case erroneously casts aside both of these requirements. It jettisons the "foreseeability" requirement by arbitrarily treating any foreign sale as a random and unexpected occurrence, with no connection to the underlying domestic infringement that gave rise to that foreign sale. Especially in today's global marketplace, there is no reason why an injury—including a lost sale—is any less foreseeable simply because it happens abroad. Specifically, like many of America's most innovative companies, Power Integrations designs and develops its products in the U.S. but then has them manufactured abroad for sale worldwide, including for incorporation into larger end-products manufactured abroad that are subsequently imported into and sold in the U.S. in large numbers. The Federal Circuit's indiscriminate line drawing will make it more difficult for U.S.

technology companies like Power Integrations to compete with foreign corporations around the world.

The Federal Circuit's assertion that extraterritorial sales are inherently "independent" of domestic patent infringement is equally arbitrary. That claim is based on a fundamental misconception of how markets—including global markets—work. There is no reason to assume that harm outside the United States is always independent of infringement inside the country. That is especially true when the clear purpose of the domestic infringement is to facilitate the foreign sales. Here, ION manufactured components of a competing survey system in the United States—including components that infringed WesternGeco's lateral steering patents. ION then sold those components abroad to surveying companies that competed directly with the surveying services provided by WesternGeco. Pet.App.40a; C.A.App.7000, 7006, 4474:4-8, 1312:3-1313:9, 1491:9-1492:18.[2] ION even stated that its purpose in developing the new survey system was "to compete in the market space that WesternGeco had created." C.A.App.8052, 7000, 7006. Far from being independent, the foreign sales that WesternGeco lost were a direct result of ION's infringing conduct in the United States. They were entirely foreseeable because the whole purpose of the infringing conduct was to capture part of WesternGeco's surveying business.

---

[2] Citations to C.A.App. refer to the Federal Circuit appendix.

Judge Wallach's dissent in the Federal Circuit's post-remand *WesternGeco* opinion is instructive. He distinguishes between two extreme situations: (1) a situation where the volume of non-infringing sales is independent of the extent of the domestic infringement; and (2) a situation where there is a one-to one relationship between the non-infringing foreign sales and the domestic infringement. Pet.App.20a-21a. In the first situation, where there is no connection between the foreign sales and the extent of the domestic infringement, "those sales should not be used as a measure of damages flowing from the domestic infringement." *Id.* at 20a. But in the second situation, because each non-infringing unit or activity bears a direct one-to-one relationship with each infringing unit or activity, the non-infringing activities are "relevant to the damages calculation." *Id.* (citing *R.R. Dynamics, Inc*, 727 F.2d at 1519)).

Judge Wallach characterized the facts of this case as falling between those two extremes. *Id.* at 21a. ION sold components of its surveying system—including a component that infringed WesternGeco's lateral steering patent—to surveying companies for later combination abroad. "Because each streamer system contains some number of devices, the volume of infringing activity in the United States bears some relationship to the number of streamer systems used on the high seas, and the number of streamer systems in turn bears some relationship to the volume of lost sales." *Id.* (internal citations omitted). Because these lost foreign sales were at least partly dependent on ION's domestic infringement, they are not a

superseding cause that cuts off the chain of causation between the infringement and WesternGeco's injury.

B. The Federal Circuit's Categorical Rule Barring Recovery of Damages for Foreign Sales Also Contravenes *Goulds*, *Dowagiac*, and its Own Precedent

The Federal Circuit's blanket rule barring recovery of any damages arising from foreign sales, regardless of their link to domestic infringement, also cannot be reconciled with this Court's precedents on patent damages in particular. These cases further confirm that foreign sales are not necessarily a superseding cause and can properly be considered when calculating damages for domestic infringement. *See Goulds' Mfg. Co. v. Cowing*, 105 U.S. 253, 255-56 (1881); *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 650 (1915).

In *Goulds*, this Court reviewed a special master's report calculating damages owed for defendant's infringement of a patent for a pump used in the oil industry. 105 U.S. at 254. The defendant manufactured infringing pumps in the United States and sold them both domestically and in Canada. *Id.* at 256. The Court upheld an award of lost profits based, in part, on defendant's sale of the infringing pumps in Canada, and emphasized that these lost profits were dependent on the infringement and entirely foreseeable. *Id.* at 256, 258. Because the market for the pumps was "limited to a particular locality" and "limited in demand," a "single

manufacturer, possessing the facilities the appellant had, could easily, and with reasonable promptness, fill every order that was made." *Id.* at 256. If there had been no infringement, "[plaintiff] alone had the advantage of this market" and none of plaintiff's sales would have been affected. *Id.* There was thus a one-to-one correspondence between the non-infringing foreign sales and the domestic infringement. *Id.* ("[u]nder these circumstances it is easy to see that what has been the appellees' gain in this business must necessarily have been the appellant's loss"). Far from being an intervening act that cuts of the chain of causation, the "fruits of the advantage they gained by their infringement were, therefore, necessarily the profits they made on the entire sale." *Id.*

By contrast, where the infringing conduct was independent of the patentee's damages and not reasonably foreseeable, this Court has declined to award lost profits from sales abroad. In *Dowagiac*, the defendant sold the infringing product abroad but did not actually manufacture it in the United States. 235 U.S. at 650. This Court rejected a damages award that was based on defendant's Canadian sales because those sales were not tied to infringement inside the United States attributable to the defendant's conduct. *Id.* The implication of *Dowagiac* is that "had the defendants manufactured within the United States the infringing articles that were the subject of the foreign sales, those sales could have been used in the calculation of profits and therefore damages." Pet.App.58a. (Wallach, J., dissenting). But because the foreign sales were independent of the domestic infringement, they were a superseding

cause sufficient to sever the chain of causation connecting the defendant's actions to the patentee's injury.

Indeed, before *Power Integrations* and the decision under review, the Federal Circuit itself had applied *Goulds* and *Dowagiac* with this superseding causation framework in mind, holding that as long as foreign sales are lost as the direct and foreseeable result of infringing conduct under § 271, recovery of those profits is appropriate under § 284. *See, e.g., Schneider (Eur.) AG v. Scimed Life Sys., Inc.*, Nos. 94-1317, -1410, -1456, 1995 WL 375949, at *3 (Fed. Cir. Apr. 26, 1995) (relying on *Datascope* to affirm award of lost profits based on foreign sales); *Datascope Corp. v. SMEC, Inc.*, 879 F.2d 820, 826-27 (Fed. Cir. 1989) (acknowledging availability of damages based on foreign sales); *Amstar Corp. v. Envirotech Corp.*, 823 F.2d 1538, 1546 (Fed. Cir. 1987) (recognizing that damages for lost foreign sales are appropriate when infringing product was manufactured or assembled inside United States); *R.R. Dynamics, Inc*, 727 F.2d at 1519 (holding that "[w]hether [the patented products] were sold in the U.S. or elsewhere is therefore irrelevant" to the damages calculation).

C. Non-Infringement Often Can Be Relevant to the Calculation of Damages under § 284 and the Determination of Liability under § 271

Under the Federal Circuit's strained interpretation of superseding causation, *any*

extraterritorial production, use, or sale of an infringing product would automatically sever the causal chain between the domestic infringement and the patentee's injury—regardless of the strength of that connection—simply because the foreign conduct is not *itself* infringing. But even in the purely domestic context, non-infringing activities can be relevant both to damages and liability.

1. First, other types of non-infringing activities besides foreign sales of the patented product can be relevant to a damages calculation. For example, domestic sales of certain unpatented products can be used to calculate damages under § 284 where a patented device is used to manufacture the unpatented product. *See Minco, Inc. v. Combustion Eng'g, Inc.*, 95 F.3d 1109, 1118 (Fed. Cir. 1996). In *Minco*, the district court calculated lost profits based, in part, on the sale of non-infringing fused silica that was produced using a patented kiln. *Id.* at 1118-19. The Federal Circuit agreed with this approach, explaining that the "assessment of adequate damages under section 284 does not limit the patent holder to the amount of diverted sales of a commercial embodiment of the patented product. Rather, the patent holder may recover for an injury caused by the infringement if it 'was or should have been reasonably foreseeable by an infringing competitor in the relevant market, broadly defined.'" *Id.* at 1118 (quoting *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1546 (Fed. Cir. 1995)). The court ultimately approved the damages award because the non-infringing fused silica sales were not a superseding cause. They were a "reasonably

foresee[able]" consequence of the infringement because the infringing product was used to manufacture the fused silica. *Id.*

Likewise, under the doctrine of convoyed sales, "a sale of a product that is not patented, but is sufficiently related to the patented product" may be used as a basis for calculating lost profits. *Warsaw Orthopedic, Inc. v. NuVasive, Inc.*, 778 F.3d 1365, 1375 (Fed. Cir. 2015). Entitlement to lost profits for such convoyed sales depends on a superseding causation analysis—the non-infringing products "must be functionally related to the patented product and losses must be reasonably foreseeable." *Id.* Finally, and most relevant to this case, when a patented product is used as an individual component within a larger multi-component product, a patentee may recover "damages based on the entire market value of the [multi-component product]" so long as "the patented feature creates the basis for customer demand or substantially creates the value of the component parts." *VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1326 (Fed. Cir. 2014) (quoting *Versata Software, Inc., v. SAP Am., Inc.*, 717 F.3d 1255, 1268 (Fed. Cir. 2013) (internal quotation marks omitted).

These cases confirm that basic superseding causation principles are relevant to determining the impact of domestic non-infringing conduct on the calculation of damages under § 284. The fact that the non-infringing conduct occurred abroad in this case should not change the need for a fact-bound, particularized proximate cause analysis.

2. Second, certain non-infringing foreign conduct can be relevant to the determination of *liability* under § 271, notwithstanding the basic requirement that the infringing conduct occur in the United States. For example, offers to sell a patented product can be infringing even if all the negotiations occur abroad, as long as the contemplated sale is to take place within the United States. *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, 617 F.3d 1296, 1309-10 (Fed. Cir. 2010). The patent at issue in *Transocean* was a new apparatus for conducting offshore drilling. *Id.* at 1300-01. Defendant allegedly made an offer in Norway to sell an infringing drilling rig to another company. *Id.* at 1308. The drilling rig was to be delivered and used within the United States. *Id.* at 1309. Despite statutory language describing "offers to sell . . . any patented invention, *within the United States*" as infringing conduct, 35 U.S.C. § 271(a) (emphasis added), the court held that offers made *abroad* to sell a patented invention within the United States constitute infringement. *Id.* at 1309-10. The court focused on the fact that the offer was to make a sale within the United States. The precise location of the offer was irrelevant. *Id.*

This principle extends to other foreign acts that result in domestic infringement. For example, "where a foreign party, with the requisite knowledge and intent, employs extraterritorial means to actively induce acts of direct infringement that occur within the United States, such conduct is not categorically exempt from redress under § 271(b)." *Merial Ltd. v. Cipla Ltd.*, 681 F.3d 1283, 1302-03 (Fed. Cir. 2012).

Similarly, the fact that part of a patented system is outside of the United States does not cut off liability under § 271(a) as long as "the place where control of the system is exercised and beneficial use of the system obtained" is within the United States. *NTP, Inc. v. Research In Motion, Ltd.*, 418 F.3d 1282, 1317 (Fed. Cir. 2005).

The clear import of these cases is that the impact of certain types of non-infringing conduct, whether occurring domestically or overseas, can be relevant when evaluating both liability and damages for patent infringement. Far from being an "independent, intervening act that . . . cuts off the chain of causation initiated by an act of domestic infringement," Pet.App.43a, non-infringing conduct—including lost foreign sales—is often highly relevant when analyzing patent infringement questions.

* * * * *

As the petitioner persuasively argues, basic principles of proximate causation are the appropriate way to limit damages for patent infringement under § 284—not the presumption against extraterritoriality. But the Federal Circuit has ignored those principles by applying what is effectively a presumption in favor of superseding causation: "[T]he entirely extraterritorial . . . sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement." That holding, which creates a categorical bar on the

recovery of damages for lost foreign sales, is inconsistent with this Court's precedent, basic proximate cause principles, and the fact that other non-infringing conduct has long been found to be relevant in certain circumstances to calculating damages and even to determining whether there is liability for patent infringement in the United States. This provides another reason why this Court should reverse the Federal Circuit's erroneous *WesternGeco* decision.

CONCLUSION

The judgment of the Court of Appeals for the Federal Circuit should be reversed.

Respectfully submitted,

ALEXANDRA A.E. SHAPIRO
Counsel of Record
PHILIP W. YOUNG
SHAPIRO ARATO LLP
500 Fifth Avenue
40th Floor
New York, NY 10110
(212) 257-4880
ashapiro@shapiroarato.com

Counsel for Amicus Curiae Power Integrations, Inc.

March 2, 2018